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No. _____

In The

Supreme Court of the United States

October Term, 1992

RICHARD G.D. LAFFERTY
CURGEO AGENCIES, INC.,

Petitioners,

v.

MRS. MARGRET REY,

Respondent.

Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The First Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1. Is a clause that reserves all rights, title, and interest in episodes "for television viewing" sufficiently broad to encompass existing and reasonably foreseeable technological advances, including the use of videocassette recorders (VCR's) to view on television screens episodes marketed on videocassettes?

2. Does the transformation of the quality assurance function of trademarks into a means of providing notice of a product's source to consumers make irrelevant the traditional requirement of quality control and render the requirement unnecessary so that interference by a licensor with a licensee's efforts to exercise the licensed rights is *prima facie* unreasonable when the licensor is not as knowledgeable as the licensee with respect to the licensed goods?

LIST OF ALL PARTIES

The petitioners are Curgeo Agencies, Inc.,[1] a privately-held Canadian corporation, and Mr. Richard G.D. Lafferty, an individual. Curgeo Agencies, Inc. is owned by Lafferty, Harwood & Partners Ltd. and Lafferty, Harwood & Co. Ltd., both privately-held corporations.

The respondent is Mrs. Margret Rey, an individual.

Curgeo Overseas, Inc., a privately-held Canadian corporation, was a party in the district court and the First Circuit, but does not join in this petition.[2]

Lafferty, Harwood & Partners Ltd. was a party in the district court and the First Circuit, but does not join in this petition. Lafferty, Harwood & Partners Ltd., a Canadian corporation, is privately held by Cryptic Investments Ltd.; Allo-Kate Investments Inc.; Maly-Helistan Investments; Slor Investments Inc.; Lafdib Management Ltd.; Lafferty, Harwood & Co. Ltd.; and In Trust.[3]

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[1] There are no parent or subsidiary companies of Curgeo Agencies, Inc.

[2] There are no parent or subsidiary companies of Curgeo Overseas, Inc.

[3] There are no parent or subsidiary companies of Lafferty, Harwood & Partners Ltd.

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The Decision of the Court of the United States District Court for the District of Massachusetts dated November 8, 1991 appears in the Appendix at 50a. The Order and Final Judgment of the district court was entered on January 15, 1992 and appears in the Appendix at 48a. The opinion of the United States Court of Appeals for the First Circuit dated March 30, 1993 appears in the Appendix at 4a.

JURISDICTION

This case arises under the Federal Copyright Act of 1976, Title 17 U.S.C. § 101 *et seq.*; the Federal Trademark Act, Title 15 U.S.C. § 1051 *et seq*. Jurisdiction is conferred on the Federal Courts by 15 U.S.C. § 1121, 28 U.S.C. §§ 1331, 1332 and 1338 (1992).

The United States Court of Appeals for the First Circuit entered judgment on March 30, 1993, affirming the district court in part, and reversing the district court in part. Appellant's timely petition for rehearing was denied and entered by the First Circuit on May 5, 1993.

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1) (1992).

STATUTES

15 U.S.C. § 1121 (1992)
28 U.S.C. § 1254 (1992)
28 U.S.C. § 1331 (1992)
28 U.S.C. § 1332 (1992)
28 U.S.C. § 1338 (1992)
28 U.S.C. § 1367 (1992)

The text of the above statutes appears in the Appendix at 82a.

SUMMARY OF FACTS

This case involves monkey business, the licensing of the "Curious George" trademark and character. Nonetheless, the business involved is big.

The licensing industry generates more than $60 billion each year.[4] In 1992, retail sales of products exploiting licensed trademarks exceeded $18 billion.[5] The licensing industry is attended by litigation of licensing agreements. Case law provides a basis to the parties to licensing agreements for drafting these agreements in a way that protects licensors' rights of ownership, licensees' rights to exploit the licensed property, and consumers' rights to receive a product of a certain quality which is authorized by the owner of the mark the product bears. Conflicts between the circuits regarding interpretation of licensing agreements creates confusion and uncertainty with respect to the licensors' and licensees' rights in licenses.

In the case at bar, Mrs. Margret Rey, the owner and co-creator of "Curious George", licensed certain rights to Milktrain, Inc. Ltd. (hereinafter "Milktrain") in an agreement entered into by Milktrain and Mrs. Rey in 1978 (hereinafter "the 1978 agreement"). 57a. The 1978 agreement gave Milktrain the right to produce new "Curious George" episodes *for broadcast on television*.

Lafferty, Harwood & Partners (hereinafter "Lafferty, Harwood") succeeded to Milktrain's rights and subsequently acquired additional rights from Mrs. Rey through an agreement formed in 1979 (hereinafter "the 1979 agreement"). 64a. The 1979 agreement provides rights, title, and interest to Lafferty, Harwood in the production of *episodes for television viewing*. Mrs. Rey, through the 1983 Ancillary Products Agreement (hereinafter "APA"),

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[4] *TLL Survey: Retail Sales of Licensed Merchandise Decreases Two Percent to $62.2 Billion in 1992*, 17 The Licensing Letter 1 (1993).

[5] *Id.* at 7.

licensed exclusive rights to Lafferty, Harwood in ancillary products retailed with the "Curious George" trademark and character. 72a.

Curious George, who had gone to the hospital and the aquarium, went to court in 1991.

Mrs. Rey brought an action in the United States District Court for the District of Massachusetts seeking injunctive relief and damages for alleged infringement of her interests in her "Curious George" trademark and copyright. Mrs. Rey maintained that the 1979 agreement did not provide Curgeo Agency, Inc. (hereinafter "Curgeo"), Lafferty, Harwood's successor company, or Lafferty, Harwood the right to distribute the "Curious George" episodes in videocassette format; but that any right to distribute such cassettes was governed by the APA, which was terminated in April, 1989.

Petitioners counterclaimed based on Mrs. Rey's unreasonable disapproval of various ancillary products exploiting the licensed "Curious George" trademark. Mrs. Rey denied approval and/or interfered with licensees' activities, even though the products depicted "Curious George" accurately and honestly, and the licenses were authorized by the 1983 APA.

In the first part of its decision, the district court determined that rights in episodes distributed on videocassettes were not granted by Mrs. Rey to Lafferty, Harwood because video technology did not exist in 1979. 52a. The district court's finding is clearly erroneous. This Court in fact recognized the availability of videocassette technology to consumers in 1976. *Sony Corp. v. Universal City Studios*, 464 U.S. 424 (1984), *rev'g* 659 F.2d 963 (9th

Cir. 1981), *aff'g in part, rev'g in part* 480 F. Supp. 429 (C.D. Cal. 1979).

The district court also held that Mrs. Rey acted unreasonably when she disapproved several marketing projects (e.g., marketing of software and pajamas using the trademark, and retail of plush toys) proposed by licensees secured by Curgeo. 53a-54a. Although Mrs. Rey had previously permitted sale of mass market products, she denied her approval and interfered with licensees of mass market merchandise in an attempt to compel these licensees to restrict their activities to a "carriage trade."[6] Mrs. Rey is not knowledgeable in the area of retailing and acted against the defendant Mr. Richard Lafferty, a principal in Lafferty, Harwood and Curgeo, apparently largely as a result of personal pique.[7] The district court's decision was proper and based upon personal observation of Mrs. Rey's behavior during the trial, as well as evaluation of Mrs. Rey's credibility through her testimony.

The district court's decision was entered on January 15, 1992. 48a. Mrs. Rey filed an appeal to the United States Court of Appeals for the First Circuit regarding the district court's determination that she unreasonably withheld approval of products. 4a. Petitioners appealed the judgment of the district court with respect to its decision that videocassettes are not included in a grant of rights in episodes for television viewing, *inter alia*. 4a. By Order entered February 18, 1992, these two appeals were consolidated. 46a.

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[6] R. at 236-37.

[7] R. at 1071-75.

The First Circuit's Judgment was entered on March 30, 1993. 2a. The Circuit Court affirmed the district court's decision concerning the videocassettes, disregarding the fact that this Court and other courts have recognized that videocassette technology existed in the 1970's, prior to the formation of the 1978 and 1979 agreements. The First Circuit also found that the licensing agreements did not encompass distribution of videocassettes because these videocassettes may be viewed on non-television monitors.[8]

The First Circuit also reversed the district court's determination that Mrs. Rey acted unreasonably in withholding approval of the marketing ventures. The Court thereby overrode the district court's determination of credibility and permitted Mrs. Rey to exercise a virtually absolute "veto" power and impose undue burdens on the licensees. This grant of authority by the First Circuit to Mrs. Rey to "monkey around" in licensees' business is not required under either trademark or copyright law, and was certainly not provided to her by the APA.

A petition for rehearing was filed April 22, 1993 limited to the issue of the right to distribute film episodes for television viewing in videocassette form.

On May 5, 1993, the First Circuit denied the petition for rehearing. 1a.

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[8] The First Circuit's analysis is neither logical nor supported by record evidence. No testimony was presented at trial to indicate that the videocassettes were marketed for any other purpose than customary consumer use (i.e., home viewing on televisions).

This petition for a writ of certiorari follows.

REASONS FOR GRANTING THE WRIT

1. THIS COURT SHOULD RESOLVE THE EXISTING CONFLICT BETWEEN THE CIRCUIT COURTS OF APPEAL REGARDING THE STANDARD FOR INCLUDING EXISTING AND FORESEEABLE TECHNOLOGY WITHIN A LICENSING AGREEMENT.

The breadth of trademark and copyright licensing agreements has been, and may be, ambiguous when there are technological advances within an industry. Consequently, a conflict in the circuits exists as to interpreting the scope of a licensing agreement when existing and foreseeable technologies are involved. A standard must be set forth for making a determination of the scope of licenses when there are such improvements or advancements; otherwise, there will be inconsistent interpretations of agreements, making licensees' rights in dealing with properties uncertain and so inhibiting the appropriate exercise of licensed rights.

There are two licensing agreements involved in the case at bar. The first agreement, entered into in 1978, between Milktrain and Mrs. Margret Rey, provides rights, title and interest in "Curious George" episodes for *broadcast on television*. 58a. The 1979 agreement between Lafferty, Harwood and Mrs. Rey grants the same in the production of "Curious George" *episodes for television viewing*. 65a. The District Court found that videocassette

technology was not in existence when either of the agreements were formed, so that the right to the episodes did not encompass the right to produce videocassettes containing the episodes. The First Circuit affirmed the lower court's decision, additionally holding that *television viewing* does not encompass the viewing of videocassettes because a "non-television" monitor can be used for viewing these videocassettes.

A New York trial court in *Tele-pac* recognized that videocassette technology existed in 1964 although it was prior to the "maturity of the market." *Tele-pac, Inc. v. Grainger*, 146 Misc.2d 1088, 1089 (N.Y. Sup. Ct. 1990), *rev'd*, 570 N.Y.S.2d 521 (N.Y. App. Div. 1991), *appeal dismissed*, 580 N.Y.S.2d 201 (N.Y. 1991) (reversing regarding the lower court's definition of broadcasting). Certainly, the same technology was more widely available 15 years later.[9] In fact, when the 1979 agreement was formed, many consumers owned a videocassette recorder (hereinafter "VCR").[10] The 1979 agreement itself suggests the existence of VCR technology, mentioning the use of *tapes*

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[9] This Court recognized that videocassette technology existed, and was used by consumers, in 1976. *Sony Corp. v. Universal City Studios*, 464 U.S. 424 (1984), *rev'g* 659 F.2d 963 (9th Cir. 1981), *aff'g in part, rev'g in part* 480 F. Supp. 429 (C.D. Cal. 1979).

[10] "Some time during 1979, the one millionth home VCR [was] sold. Introduced in 1975 in extremely small quantities, sales grew to an estimated 30,000 in 1976, rising to possibly 200,000 in 1977 and more than doubling to 401,930 in 1978, the first year [Electronic Industries Association] compiled industry VCR sales-to-dealers figures. In early 1979, sales were running substantially ahead of 1978's pace." *Elec. Market Data Book* 6 (1979).

and the right to combine episodes *consecutively at a given time.* 66a.

The debate over whether a licensing agreement encompasses technological advancements dates back to the early twentieth century when motion-picture technology was developed. The court in *Kalem* extended rights to "dramatize" to the production of motion pictures even though motion-picture technology was unknown when the agreement was formed. *L.C. Page & Co. v. Fox Film Corp.*, 83 F.2d 196 (2d Cir. 1936) (citing *In Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911), *aff'g* 169 F. 61 (C.C.N.Y. 1909)). The debate continues because technological improvements, particularly in the entertainment industry, are on-going.

The Second Circuit has refined the holding in *Kalem* by requiring reasonableness. *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 155 (1968), *aff'g* 270 F. Supp. 896 (S.D.N.Y. 1967), *cert. denied*, 393 U.S. 826 (1968). The court held that if a new technological medium was not completely unknown when the licensing agreement was formed, and the medium's future possibilities were known, then a licensing agreement providing "rights, title, and interest" would encompass the new technology. *Id.* This rule applies even when widespread use of the new technology is not anticipated. *Id.* Since videocassette technology existed at the time the agreements were formed, the licensing agreements should have been held to provide to Curgeo, as the successor to Milktrain and Lafferty, Harwood, the right to distribute the episodes in videocassette format under the doctrine followed in the Second Circuit and outlined in *Bartsch*.

At least two courts have recognized that " 'whether the exhibition apparatus is a home videocassette player or a television station's broadcast transmitter, the films are 'exhibited' as images on home television screens.' " *Platinum Record Co., Inc. v. Lucasfilm, Ltd.*, 566 F. Supp. 226, 228 (D. N.J. 1983) (quoting *Rooney v. Columbia Pictures Indus.*, 538 F. Supp. 211, 228 (S.D.N.Y. 1982), *aff'd*, 714 F.2d 117 (2d Cir. 1982), *cert. denied*, 460 U.S. 1084 (1983)).

The First Circuit rejected the reasonableness standard set forth in *Bartsch*, and the approach followed within the Third Circuit. The Court determined that rights in episodes on videocassette are not granted by the agreement because a videocassette can be viewed on a non-television monitor. The First Circuit adopted the view of the Ninth Circuit in *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988), holding that the material on videocassettes is not "exhibited" solely through the means of a television; instead, non-television monitors can be used. This is a fine distinction without any sound basis in logic or real-world practice.

In *Cohen*, the Ninth Circuit erroneously concluded that the "exhibition" of a film broadcast via a network or cable to a television is inherently different than the exhibition of a film transmitted from a videocassette using a VCR. *Cohen*, 845 F.2d at 853. Whether a film is broadcast by a network or a VCR, the means of exhibition remains the same, the television.

Justice Asch in *Tele-pac* recognized that "the transmission from a videocassette through a VCR connected to the viewer's television is no different from a closed circuit

transmission via cable from a point outside the viewer's home to his television set." *Tele-pac*, 570 N.Y.S.2d at 527 (Asch, J., dissenting) (quoting *Tele-pac*, 146 Misc.2d at 1091). Therefore, if videocassettes are to be excluded because they are capable of being viewed on non-television monitors, the same distinction would be necessary for cable transmissions since only a monitor, and not a television, is required to receive such transmissions.

Acceptance of this type of inconsistency in rulings from circuit to circuit will result in uncertainty in interpreting licensing agreements, and impede exploitation of licensed rights.

Many licensing agreements grant rights to a licensee indefinitely. Questions regarding the scope of these agreements will continue to arise unless this Court establishes a uniform test since technological advances in the entertainment industry are rapid and commonplace (e.g., the growth in consumer use of videocassettes and laser discs). This Court is urged to adopt the test set forth by the Second Circuit in *Bartsch*, one of reasonableness if the technology existed when the licensing agreement was formed. If certiorari is denied, issues similar to the one before this Court will continue to be litigated and the costs will no doubt be borne by the consumer as well as by licensees.

2. THIS COURT SHOULD RESOLVE THE CONFUSION REGARDING THE REQUIREMENT OF QUALITY CONTROL IN TRADEMARK LICENSING, WHICH REQUIREMENT IS TODAY WITHOUT SUBSTANCE OR PURPOSE.

The licensing of trademarks was at one time unknown and then forbidden. The common law theory was that trademarks evidence a product's physical source and origin.[11] The "source theory" precludes the licensing of trademarks, because the licensed product is not that of the owner of the trademark. A license was believed to permit a fraud on the public, namely the representation that the licensed product was a product of the licensor, when it was not.

This view that a trademark primarily signified source or origin began to change in the 1930's, eventually developing into the "guaranty theory."

The guaranty theory provides for licensing, with the licensor accepting responsibility for reasonably ensuring the quality of the goods or services using a licensed trademark. The licensor guarantees to the public through its involvement that the licensed product may be imputed to the licensor. The licensor assumes a large burden under this theory which mandates quality control. A trademark owner would risk abandonment of rights in the licensed mark if it did not actively participate in the

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[11] See 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18.13 (1992) for an in-depth discussion of the common law view of trademarks.

setting of standards and inspection of the goods or services sold.[12] There are obvious difficulties with the guaranty theory when a licensor is not knowledgeable in the goods or services sold, but is expected to continue to exercise quality control to avoid abandonment of the mark. A situation resulted where formulaic language might be used in a license agreement, or not, but effective control was not in fact required as a condition for continuing validity of the licensed mark.[13]

More recently, the theory permitting licensing of trademarks has developed into an acceptance of the function of a mark as an indication of sponsorship or affiliation.[14] This modern view recognizes that a trademark assures affiliation with, or sponsorship by, the licensor even when the product is not similar to products typical of, or manufactured by, the licensor.[15] The licensor has the ability to control reasonably the nature of products marketed. The licensor's control is primarily focused on ensuring that the trademark is accurately and honestly depicted. This view recognizes that a licensee is generally

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[12] *C.f. Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 366-67 (2d Cir. 1959).

[13] Kevin Parks, *"Naked" is not a Four-Letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing*, 82 TMR 531, 540 (1992).

[14] In 1992, revenue from retail sales of products exploiting a licensed trademark totalled $18.6 billion. *TLL Survey: Retail Sales of Licensed Merchandise Decreases Two Percent to $62.2 Billion in 1992*, 17 The Licensing Letter 1, 7 (1993).

[15] *See generally*, Parks, *supra* note 13, for a detailed discussion regarding the modern treatment of trademark quality control requirements in licensing agreements.

more knowledgeable than the licensor regarding the product sold, deals regularly in goods of the kind, and is therefore more capable of making informed decisions with respect to quality of goods.[16]

In the case at bar, Mrs. Rey withheld approval of several projects where "Curious George" licenses were secured by licensees having considerable experience in dealing with goods of the kind licensed (e.g., Sears pajamas, Eden plush toys, and the DLM software product).[17] It was clear that her refusal to approve, as well as her complaints to licensees, were predicated on her lack of knowledge about the licensed products, particularly software and documentation for software.[18]

The district court, who had the opportunity to observe Mrs. Rey's demeanor and evaluate her testimony on the issues, accordingly determined that Mrs. Rey acted unreasonably because "[s]he did not have the right to

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[16] Franchise Agreements, as compared to trademark licensing agreements, employ a much stricter quality control requirement. When a Franchise Agreement is involved, the franchisee is severely restricted in its choice of materials, ingredients, supplies, and operating procedures. Andrew J. Sherman, *Franchising as Growth Strategy*, 2 The Law and Business of Licensing 1341 (1992). The case at bar involves a trademark licensing agreement, not a Franchise Agreement.

[17] The 1992 Annual Licensing Business Survey indicates that the products in dispute are included among product categories that generate 26.8% of the total revenue from licensed product retail sales; sales of apparel generated $10.7 billion in 1992; sales of toys/games generated $6.6 billion; and sales of videogames/software generated $3.0 billion. The Licensing Letter, *supra* note 4, at 7.

[18] R. at 465-70.

disapprove the *quality* of the product." *Rey v. Lafferty*, No. 91-10501-Z, slip op. at 5 (D. Mass. Nov. 8, 1991), *rev'd in part, aff'd in part*, No. 92-1139 (1st Cir. Mar. 30, 1993) (emphasis added). [50a]. The First Circuit improperly reversed the district court's decision, finding that Mrs. Rey's actions were justified to protect "the integrity and commercial value of her artistic creation." *Rey v. Lafferty*, No. 92-1139, slip op. at 35 (1st Cir. Mar. 30, 1993), *rev'g in part, aff'g in part* No. 91-10501-Z, slip op. (D. Mass. Nov. 8, 1991). [4a]. The circuit court ignored Mrs. Rey's willingness to license the mark for a wide range of products for significant renumeration, and the integrity of presentation of character by the licensees. More significantly, however, the Court of Appeals ignored Mrs. Rey's lack of a knowledge base on which to evaluate quality in light of legal requirements for sale of products licensed under her authority,[19] such as pajamas with federal regulations placing requirements on fabric for children's wear.

The First Circuit's holding is apparently based on the traditional but commercially outdated and unreasonable quality assurance theory. The Court, disregarding Mrs. Rey's lack of knowledge in both the type of goods to be marketed and the legal requirements for sale of such goods, granted her virtually absolute power to control the quality of ancillary products exploiting her trademark, whatever the circumstances. The First Circuit's decision impedes knowledgeable and experienced licensees who must work within the existing regulatory framework.

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[19] See R. at 1101-5.

Application of the modern view yields the same result reached by the district court, especially when considering that licensees secured under Mrs. Rey's authority by Curgeo Agencies were experienced and sophisticated in goods of the type to be marketed. Mrs. Rey is not sufficiently knowledgeable and informed to make necessary decisions concerning these business ventures.

A licensor inexperienced in the manufacture of goods or the legal requirements for their sale *prima facie* has no reasonable basis to disapprove a product on which the licensed trademark appears. Consumers have no expectation that the creator of "Barney" or "Donald Duck" has any knowledge or expertise regarding lunch boxes or balloons.

This Court is urged to adopt the view of the district court and to find that there is a presumption of unreasonableness in a refusal to approve goods of licensees who deal in goods of the kind when the licensee employs an honest and accurate depiction of the licensed property, whether it is word mark or character.

In the case at bar, Mrs. Rey licensed the right to use her "Curious George" trademark on ancillary products. However, Mrs. Rey rejected the "Sears pajama" project as the pajamas were of alleged poor quality. It was clear she had no basis for that determination and her refusal ignored the licensee's need to comply with federal regulations to sell the licensed product. As the "Curious George" trademark was an honest and accurate depiction, and the goods were quality goods of the type

licensed, the rejection should have been held unreasonable presumptively.

Mrs. Rey has a right to reject a product that does not properly portray her "Curious George" trademark. She has a right to determine not to license her mark on certain categories of goods. Once she has granted the license for goods, however, and licensees have incurred expense and commitments have been made, her right to deny exploitation of the trademark on ancillary products should not extend to a veto on such products based on her uninformed decisions or unrealistic expectations about product "quality."

This Court is urged to adopt the modern view of the quality control requirement, holding that the quality control by a licensor is not required for trademark validity, as it is an anachronism when the licensor is inexperienced and the licensee is knowledgeable and sophisticated in goods of the type. Disapproval of use of a licensed trademark on licensed goods by a licensor lacking a knowledge base in goods of the type should be presumed unreasonable when the licensee has experience dealing with goods of the kind licensed. If this view of the lack of need for the licensor's quality control is not adopted by this Court, experienced licensees may be unfairly restricted in their ability to employ licensed properties for which they have committed substantial sums; and companies engaged in licensing will continue a charade which no longer accords with commercial reality, if it ever did so.

CONCLUSION

Left unreviewed by this Court, the First Circuit's decision affirming the district court stands for the following:

> That a licensing agreement granting rights, title, and interest is not sufficiently broad to include technological advancements, even though such technology existed and was reasonably foreseeable at the time the agreement was formed; and despite Second Circuit decisions in *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir. 1968), *aff'g* 270 F. Supp. 896 (S.D.N.Y. 1967), *cert. denied*, 393 U.S. 826 (1968); *L.C. Page & Co. v. Fox Film Corp.*, 83 F.2d 196 (2d Cir. 1936); which preclude such a result.

Left unreviewed by this Court, the First Circuit's decision reversing the district court stands for the following:

> A licensor, inexperienced in goods of the type and not knowledgeable with respect to applicable federal regulations, is permitted to preclude a licensee from exploiting a licensed trademark, even though the licensed trademark is depicted accurately and honestly, the goods are suitable for the purpose for which they are sold, and compliance with the fiats of the licensor precludes enjoyment of the license.

Respectfully submitted,

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Attorney for Petitioners

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 92-1139

MARGARET REY,
Plaintiff, Appellee,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellants,

No. 92-1177

MARGARET REY,
Plaintiff, Appellant,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellees.

Before

Selya, Cyr and Boudin,
Circuit Judges.

ORDER OF COURT

Entered: May 5, 1993

Upon consideration of appellant's petition for rehearing in the above-captioned cases,

It is ordered that said petition be denied.

By the Court:

FRANCIS P. SCIGLIANO

Clerk.

[cc: Messrs. Donelan, Hameline, Greene, and Ms's. Palmieri and Perrelli]

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 92-1139

MARGARET REY,
Plaintiff, Appellee,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellants,

No. 92-1177

MARGARET REY,
Plaintiff, Appellant,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellees.

JUDGMENT

Entered: March 30, 1993

These causes came on to be heard on appeals from the United States District Court for the District of Massachusetts, and were argued by counsel.

Upon consideration whereof, It is now here ordered, adjudged and decreed as follows: The judgment of the district court is affirmed in part and reversed in part in accordance with the opinion issued this date.

Costs are awarded to Margaret Rey.

By the Court:

FRANCIS P. SCIGLIANO
Clerk.

[cc: Messrs. Hameline and Donelan]

United States Court of Appeals
For the First Circuit

No. 92-1139

MARGRET REY,

Plaintiff, Appellee,

v.

RICHARD G.D. LAFFERTY, ET AL.,

Defendants, Appellants.

No. 92-1177

MARGRET REY,

Plaintiff, Appellant,

v.

RICHARD G.D. LAFFERTY, ET AL.,

Defendants, Appellees.

APPEALS FROM THE UNITED
STATES DISTRICT COURT

FOR THE DISTRICT OF MASSACHUSETTS

[Hon. Rya W. Zobel, *U.S. District Judge*]

Before

Selya, Cyr and Boudin,

Circuit Judges.

H. Joseph Hameline with whom *Andrea M. Fish* and *Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC* were on brief for appellee Rey.

Charles Donelan with whom *Katherine E. Perrelli, Kristen G. McGurn* and *Day, Berry & Howard* were on brief for appellants Lafferty, et al.

March 30, 1993

CYR, ***Circuit Judge.*** Margret Rey, who owns the copyright to the "Curious George" children's books, challenges an award of damages to Lafferty Harwood & Partners ("LHP") for Rey's withholding of approval of various ancillary products utilizing the "Curious George" character under their 1983 licensing agreement. LHP appeals the district court order awarding Rey damages and future royalties on certain other "Curious George" products. We affirm in part and reverse in part.

I

BACKGROUND

"Curious George" is an imaginary monkey whose antics are chronicled in seven books, written by Margret and H.A. Rey, which have entertained readers since the 1940s. A mischievous personality consistently lands Curious George in amusing scrapes and predicaments. The more recent "monkey business" – leading to the present litigation – began in 1977 when Margret Rey granted Milktrain Productions an option to produce and televise 104 animated "Curious George" film episodes.

The option agreement was contingent on Milktrain's obtaining financing for the film project, and adverted to a *potential* agreement to license "ancillary products," based on the "Curious George" character, once the 104 film episodes had been completed.

A. The Original Film Agreements.

Milktrain approached LHP, a Canadian investment firm, to obtain financing for the project. LHP agreed to fund the venture by selling shares in the project to investors (hereinafter: the "Milktrain Agreement"); LHP and its investors were to divide a 50% share of Milktrain's profits on the films and on any future ancillary products.

With the financing commitment in place, Rey granted Milktrain and LHP a limited license "to produce (within a two-year period from the date of exercise) one hundred and four (104) four minute film episodes based on the ["Curious George"] character solely for broadcast on television" (hereinafter: the "Rey License"). Rey was to receive a fee for assisting with the editing and production of the episodes, and an additional royalty amounting to 10% of the revenues from any film telecasts. The Rey License made no mention of ancillary product rights. Nevertheless, LHP promoted the project to investors through a prospectus (hereinafter: the "1978 Private Placement Memorandum") which represented, *inter alia*, that "the production contract [with Rey] gives LHP the right to participate in the financing of . . . the option . . . to undertake the exploitation of other rights to 'Curious George' including manufacturing, food, licensing and other commercial areas of exploitation."

B. The Revised Agreements.

The film project soon encountered delays and financial setbacks. By early 1979, though only 32 of the 104 episodes had been completed, the original investment funds had been virtually exhausted. In order to rescue the project and complete the films to Rey's satisfaction, LHP offered to arrange additional financing. In consideration, LHP insisted that the Milktrain Agreement be revised to permit LHP to assume control of the film production process and to receive higher royalties on the completed episodes. Milktrain assented to these revisions, and the revised Milktrain Agreement (hereinafter: the "Revised Milktrain Agreement" or "RMA") was signed on November 5, 1979.

As prelude to its description of the new obligations between Milktrain and LHP, the RMA recited that Milktrain and LHP owned "the rights to Curious George which have been obtained from . . . Rey" under the Rey License. The RMA further stated that:

> Investors acquiring the episodes shall acquire all right, title and interest therein, without limitation or reserve, including the original negative. . . .
>
> LHP shall have the right to participate on an equal basis with [Milktrain] in their right of first refusal after the present agency rights expire to undertake the exploitation of other rights to Curious George, including manufacturing, food, licensing and the publication of the 104 episodes in book form . . . in accordance with the rights

granted to [Milktrain] and LHP [by Rey] in [the Revised Rey License].[1]

Simultaneously with the negotiation of the RMA, LHP proposed several changes in the Rey License, including language which would have granted LHP the immediate right to "undertake the exploitation of other rights to 'Curious George,' including manufacturing, food, licensing and the publication of the 104 episodes in book form." Rey rejected the LHP proposal in a letter to Richard G. D. Lafferty (president and C.E.O. of LHP): "I have repeatedly stated to Milktrain and to you that I will not consider negotiating such rights before the films are done." Rey did consent, however, to certain changes to the royalty arrangements, whereby Rey would receive a 10% share of film revenues only "after the investors have recouped [their investment] and certain soft dollar commitments . . . have been paid."

On November 5, 1979, concurrently with the execution of the Revised Milktrain Agreement, a revised version of the Rey License (hereinafter: the "Revised Rey License" or "RRL") was executed, incorporating these changes, and superseding the original Rey License. The RRL recited that the original Rey License had granted Milktrain and LHP the right to produce and distribute animated "Curious George" films "for television viewing," but made no mention of the "ancillary product" rights unsuccessfully sought by LHP.

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[1] Shortly thereafter, Milktrain apparently assigned its share of ancillary product licensing rights to LHP, leaving LHP the sole owner of these rights.

As agreed, LHP undertook to arrange further financing to complete the film project. On November 23, 1979, LHP released another prospectus (hereinafter: the "1979 Private Placement Memorandum") to which it attached the Revised Milktrain Agreement. The 1979 Private Placement Memorandum again stressed the prospect of eventual revenues from ancillary products but noted that these rights "have yet to be negotiated" with Rey.

C. The Ancillary Products Agreement.

Production of the 104 TV episodes was completed in 1982. On January 3, 1983, an Ancillary Products Agreement (or "APA") was signed by Rey and LHP, granting LHP a general right to license "Curious George" in spin-off ("ancillary") products for a renewable term of five years. The APA defined "ancillary products" as:

> All tangible goods . . . excluding books, films, tapes, records, or video productions. . . . However, for stories already owned by [LHP] and which have been produced as 104 episodes under the license granted in the January, 1978 agreement and the November 5, 1979 revision of that agreement, [LHP] shall have the right to produce books, films, tapes, records and video productions of these episodes under this Agreement, subject to [Rey's] prior approval . . . which prior approval shall not be unreasonably withheld.

In return for these rights, Rey was to receive one-third of the royalties on the licensed products, with certain minimum annual payments guaranteed. Rey retained the right to disapprove *any product*, and to propose changes which

would make a disapproved product acceptable to her. The APA provided, *inter alia*, that Rey's approval would not be withheld "unreasonably."

D. **The Houghton Mifflin Contract.**

Following the execution of the Ancillary Products Agreement, LHP assigned its licensing rights to a new subsidiary, Curgeo Enterprises, which turned its attention to licensing the "Curious George" character in various product forms.[2] On March 27, 1984, Curgeo executed a contract with Houghton Mifflin Company to publish the 104 television film episodes in the form of a children's book series. The contract provided that Houghton Mifflin would publish at least four books, with illustrations drawn directly from the film negatives, in each year from 1984 through 1987; the contract was renewable for an additional five-year term if LHP and Rey agreed to extend the APA beyond 1987. Pursuant to the contract, Houghton Mifflin published four books each year from 1984 through 1987.

In 1987, LHP notified Houghton Mifflin that it had declined to extend the APA, but that Curgeo had "entered into a new operating agreement which permits us to continue to act in the capacity in which we have been acting for the last five years. . . . [Y]ou are free to pick up your option to renew." In response, Houghton Mifflin

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[2] Curgeo Enterprises is not named in the Rey complaint; Curgeo Agencies Inc. and Curgeo Overseas, Inc., are named as defendants. We refer to the three entities collectively as "Curgeo."

extended its contract for the additional five-year term, publishing an additional four books in 1988 and again in 1989. It ceased publication of the book series in 1990, when Rey advised that the APA had been cancelled.

E. Other Product Licenses.

Curgeo moved aggressively to license the "Curious George" character in other product areas as well. Beginning in 1983, the "Curious George" TV episodes were licensed to Sony Corporation, which transferred the images from the television film negatives to videotape. LHP takes the position that the Sony video license was entered pursuant to the RRL; Rey claims it is subject to the APA. *See supra* at pp. 6-7.

In 1983, Curgeo licensed "Curious George" to Eden Toys Inc., which proposed to market a "Curious George" plush toy. In the beginning, Rey rejected Eden's proposed designs for the toy, but Eden eventually proposed several versions which were acceptable to Rey. The plush toy was marketed from 1983 to 1990, but experienced poor sales and generated less revenue than expected. Eden blamed the poor market performance on Rey's alterations to Eden's original design proposals.

In 1987, Curgeo received a commitment from Sears, Roebuck to market "Curious George" pajamas through the Sears catalog. The Sears pajama project promised high returns, but catalog deadlines necessitated immediate approval of a product design. Glen Konkle, Curgeo's agent, brought Rey a prototype pajama and a flat paper sketch of "Curious George" which had been proposed as the basis for the final pattern. Rey rejected the proposal,

complaining that the pajama material was "hard, ugly [and] bright yellow," and that the sketch of "Curious George" was "plump" and "not recognizable." The catalog deadline passed and the pajama manufacturers withdrew their bids. In addition, Beach Paper Products, which had orally agreed to license "Curious George" for a line of paper novelties, withdrew its offer after learning that "Curious George" products would not receive exposure in the Sears catalog.

In 1988, Curgeo licensed "Curious George" to DLM Inc., which intended to use the "Curious George" character in a trilogy of educational software. Rey approved the software in principle, and production began in July 1988. In August 1988, however, DLM withdrew its plans to complete the "trilogy" after Rey telephoned DLM's project director and harshly criticized the design of the first software product and the accompanying manual developed by DLM.

F. The Ancillary Products Agreement Renewal.

Due in part to these product rejections, LHP earned less money than it anticipated from ancillary products. When the APA came up for renewal in January 1988, LHP declined to exercise its option for an additional five-year term. Instead, the parties agreed to renew on a month-to-month basis, terminable by either party on one month's notice. Rey's royalty rate was increased to 50% (effective January 3, 1988), but with no guaranteed minimum payment. On April 10, 1989, Rey terminated the APA. LHP responded by advising that Curgeo would "continue to administer those licenses which [remained] outstanding

and report to you from time to time accordingly." LHP thereupon continued to market the Sony videos and to publish the television films in book form under the Houghton Mifflin agreements.

G. "Curious George" Goes to Court.

On February 8, 1991, Rey filed suit against Lafferty, Curgeo and LHP, in connection with LHP's continuing, allegedly unauthorized production of the Houghton Mifflin books and Sony videos. Rey's complaint alleged violations of federal copyright, trademark and unfair-competition statutes, breach of contract, and violations of Mass. Gen. L. ch. 93A ("chapter 93A"); it sought to enjoin further violations and to recover unpaid royalties on the books and videos. LHP countersued, claiming that Rey unreasonably had withheld approval of various products while the APA remained in force. The LHP complaint alleged breach of contract, interference with contractual and advantageous business relationships, and violation of chapter 93A.

After a four-day bench trial, the district court found for Rey on her claims for breach of contract, ruling that the book and video licenses were governed by the APA and that Rey was entitled to recover $256,327 in royalties. The court found for LHP on several LHP counterclaims, however, holding that Rey unreasonably had withheld approval of, *inter alia*, the Sears pajamas, the DLM software, and Eden's original plush toy design. LHP was awarded $317,000, representing lost profits and consequential damages resulting from Rey's rejection of these products.

II

DISCUSSION

"Under Massachusetts law, the 'interpretation of a contract is ordinarily a question of law for the court'." *Fairfield 274-278 Clarendon Trust v. Dwek*, 970 F.2d 990, 993 (1st Cir. 1992) (quoting *Edmonds v. United States*, 642 F.2d 877, 881 (1st Cir. 1981)); *see also, e.g., Lawrence-Lynch Corp. v. Department of Environmental Mgmt.*, 392 Mass. 681, 682, 467 N.E. 2d 838, 840 (1984); *Sparks v. Microwave Associates, Inc.*, 359 Mass. 597, 600, 270 N.E. 2d 909, 911 (1971).[3] Only if the contract is ambiguous will there arise issues of fact reviewable for clear error. *See Dwek*, 970 F.2d at 993; *see also ITT Corp. v. LTX Corp.*, 926 F.2d 1258 (1st Cir. 1991); *Fashion House, Inc. v. K Mart Corp.*, 892 F.2d 1076, 1083 (1st Cir. 1989) (New York law). "Contract language is usually considered ambiguous where an agreement's terms are

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[3] The Rey License and RRL contain choice-of-law provisions providing for the application of New York law, and the Milktrain Agreement and RMA contain choice-of-law provisions providing for the application of the law of the Province of Quebec, Canada. Neither party alludes to these contractual provisions in their briefs, however, and both parties appear to have premised their trial presentations and appellate briefs on the application of Massachusetts law. In accordance with their choice, and since a "reasonable relation" exists between their contract and the Massachusetts forum, *see Carey v. Bahama Cruise Lines*, 864 F.2d 201, 206 (1st Cir. 1988), we apply Massachusetts law. *See Borden v. Paul Revere Life Ins. Co.*, 935 F.2d 370, 375 (1st Cir. 1991) ("[w]here . . . the parties have agreed about what law governs, a federal court sitting in diversity is free, if it chooses, to forego independent analysis and accept the parties' agreement"); *accord Doherty v. Doherty Ins. Agency, Inc.*, 878 F.2d 546, 547 (1st Cir. 1989); *Moores v. Greenberg*, 834 F.2d 1105, 1107 n.2 (1st Cir. 1987).

inconsistent on their face or where the phraseology can support reasonable difference of opinion as to the meaning of the words employed and obligations undertaken," *K Mart*, 892 F.2d at 1083 (citing *In re Navigation Technology Corp.*, 880 F.2d 1491, 1495 (1st Cir. 1989)). The ambiguity determination itself is subject to plenary review, *id.*, and parol evidence may not be used to "create ambiguity where none otherwise exists." *See Boston Car Co. v. Acura Auto. Div.*, 971 F.2d 811, 815 (1st Cir. 1992) (citing *ITT Corp.*, 926 F.2d at 1261).

A. The Book/Video Claims

The Rey complaint alleged that LHP's only right to publish the "Curious George" TV episodes in book and video form derived from the Ancillary Products Agreement, was subject to the APA's royalty provisions, and expired when Rey terminated the APA in 1989. LHP responds that the book and video rights to the TV episodes were governed by the parties' other agreements, specifically the Revised Rey License, which (according to LHP) incorporated the Revised Milktrain Agreement. According to LHP, these other agreements continued to affect notwithstanding termination of the APA; moreover, these agreements provided that no royalties were due Rey before LHP's investors recovered their investment in the 104 TV films.[4] The district court accepted the interpretation urged by Rey, based on the language of the

[4] LHP contends that $250,000 (U.S.) had yet to be recovered by the investors at the time the present action was commenced.

various contracts and the circumstances surrounding their execution. We agree.

1. **The Houghton Mifflin Books.**

The Ancillary Products Agreement provided, *inter alia*, that

> for stories already owned by [LHP] . . . which have been produced as 104 episodes under the license granted in the January, 1978 agreement and the November 5, 1979 revision of that agreement, [LHP] shall have the right to produce *books*, films, tapes, records and *video productions* of these episodes *under this Agreement*, subject to [Rey's] prior approval . . .

(Emphasis added.) Throughout the document the term "this Agreement," utilizing the capital letter "A", refers to the APA. Thus, the plain language of the operative provision clearly contemplates that the APA was to govern the licensing of any books and "video productions" arising from the 104 films. *See Barilaro v. Consolidated Rail Corp.*, 876 F.2d 260, 265 n.10 (1st Cir. 1989) ("it is . . . 'a general rule in the construction of a written instrument that the same word occurring more than once is to be given the same meaning unless a different meaning is demanded by the context.' ") (quoting *Dana v. Wildey Sav. Bank*, 294 Mass. 462, 466, 2 N.E.2d 450, 453 (1936)).

LHP argues, nonetheless, that a narrow meaning must be ascribed to the quoted APA language, insofar as the RMA purported to grant investors "all right, title and interest [to the 104 film episodes], without limitation or reserve, including the original negative." The problem

with LHP's argument is that Rey never signed the RMA. LHP concedes this, but argues that the RMA and RRL were negotiated and executed simultaneously by LHP, and must be interpreted in pari materia. *See, e.g., Interstate Commerce Comm'n v. Holmes,* slip op. at 10-11 (1st Cir. Jan. 11, 1993) (escrow agreement and consent decree read together, as "synergistic" documents); *accord Chelsea Indus., Inc. v. Florence,* 358 Mass. 50, 55-56, 260 N.E.2d 732 (1970); *Thomas v. Christensen,* 12 Mass. App. Ct. 169, 422 N.E.2d 472, 476 (1981). The Massachusetts courts sometimes have held that the party to be bound need not have signed each component part of an integrated agreement where it is the "sense" of the transaction, as supported by reliable indicia in the writings which were signed by the party to be bound, that a unitary transaction was contemplated by the parties. *See Chase Commercial Corp. v. Owen,* 32 Mass. App. Ct. 248, 588 N.E.2d 705 (1992) (holding that non-signatory guarantor was bound by jury trial waiver contained in loan and security agreements, though guarantee agreement contained no such waiver, where "the three documents were part of one transaction"); *see also Gilmore v. Century Bank & Trust Co.,* 20 Mass. App. Ct. 49, 50, 477 N.E.2d 1069, 1073 (1985) (holding that non-signatory trustee could recover for breach of workout agreement, even though not a party to its terms, based on "sense" of agreement, and "such factors as simultaneity of execution, identity of subject matter and parties, cross-referencing, and interdependency of provisions"). On this theory, LHP contends, Rey's signature on the RRL bound her to the language of the RMA, and authorized LHP to transfer the television episodes to book form, using available technology.

However, where contract language contains no unambiguous indicia of the parties' mutual intent to enter into a unitary transaction, we review for "clear error" the fact-dominant determination whether their separate documents were intended by the parties as an integrated agreement. *Interstate Commerce Comm'n v. Holmes*, slip op. at 10-11; *Holmes Realty Trust v. Granite City Storage Co.*, 25 Mass. App. Ct. 272, 517 N.E.2d 502, 504 (1988) ("it would be *open to a fact finder* . . . to treat [separate documents] as intended by the parties to be parts of a single transaction") (emphasis added); *Fred S. James & Co. v. Hoffmann*, 24 Mass. App. Ct. 160, 163, 507 N.E.2d 269, 271 (1987).

In the present case, we find no "clear error" in the district court's determination that the parties contemplated *separate* (though related) transactions for film rights and financing. The evidence cut both ways. On the one hand, the RMA and the RRL were executed at approximately the same time, with some overlap in their internal references and subject matter. On the other hand, their respective provisions are less in unison than parallel.[5] Most importantly, the written and circumstantial

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[5] Even if the RMA and RRL were jointly construed, their language might point away from the interpretation urged by LHP. Section 2(i) of the RMA granted LHP's investors "all right, title and interest" in the 104 T.V. episodes, "without limitation or reserve," but § 1(a) tempered this grant by defining the rights as "described herein, and set forth in Schedule 'A' [the RRL]." This language suggests that the "right, title, and interest" language of the RMA was meant only to *confirm* and *restate*, and not to expand upon, the RRL's parallel, but more limited, grant of rights. *Cf. Fred S. James & Co.*, 24 Mass. App. Ct. at 164, 507 N.E.2d at 272 (finding no conflict between simultaneously exe-

indicia sharply contradict any suggestion of a meeting of the minds relating to the licensing of ancillary products. Rey did not participate in negotiating the RMA, did not sign it, was never made a party to its terms, and *expressly refused, during the RRL negotiations, to license "Curious George" for the "ancillary" purposes now urged by LHP. See supra* at p. 6. Moreover, the 1979 Private Placement Memorandum prepared by LHP acknowledges Rey's nonacceptance by attaching the RRL as an exhibit and noting that ancillary product rights "have yet to be negotiated" with Rey. Finally, the parties' intention to exclude the Houghton Mifflin books from the RRL, and their intention to cover them in the APA, are corroborated by their subsequent course of dealing: among other things, the record shows that LHP paid Rey royalties on the books and videos on several occasions *at the 33% rate required under the APA*, rather than the 10% rate prescribed by the RRL, and that Curgeo expressly keyed the dates of the Houghton Mifflin contract *to the term (and anticipated renewal term) of the Ancillary Products Agreement:*

> By September 30, 1987, Curgeo [will] inform [Houghton Mifflin] in writing as to whether Curgeo has exercised its option to exploit the character "Curious George" through December 31, 1993 and, if Curgeo has exercised said option, Curgeo shall give the Publisher the option to extend this Agreement through December 31, 1993.

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cuted instruments, where their language and the extrinsic evidence suggested independent obligations arising from simultaneous contracts).

It was for the district court to balance the evidence in the first instance, *see Holmes Realty Trust*, 517 N.E. 2d at 504, and we discern no sound reason to disagree with its findings, particularly on "clear error" review. *See Interstate Commerce Comm'n v. Holmes*, slip op. at 13 (citing *Cumpiano v. Banco Santander Puerto Rico*, 902 F.2d 148, 152 (1st Cir. 1990)) (even if proffered interpretation did "[give] rise . . . to another plausible view of the evidence," reversal not warranted on "clear error" review).[6]

To sum up: Since the district court supportably found that the RRL and the RMA are separate, though related, agreements, the RMA's purported grant of rights did not bind Rey, who was bound only by the grant of rights she endorsed in the RRL and APA. The RRL contained no grant of rights to produce the Houghton Mifflin books, and the APA, which granted the right "to produce books . . . of these episodes," obligated LHP to pay Rey royalties

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[6] We reject LHP's further contention that Rey's failure to protest publication of the four Houghton Mifflin books in 1990 estops her from cancelling the book and video contracts under the APA. Where more than one inference fairly may be drawn from the evidence and an estoppel ruling turns on an issue of fact, we review for clear error. *United States v. Marin*, 651 F.2d 24, 29 (1st Cir. 1981); *Morgan Guaranty Trust Co. v. Third Nat'l Bank*, 529 F.2d 1141, 1144 (1st Cir. 1976). In our view, Rey's conduct does not require an inference that she acquiesced in the publication of these books under the APA. Rather, Rey protested the publication of the four books by filing suit shortly after realizing the unauthorized nature of Houghton Mifflin's continued publication. The district court apparently found that Rey's one-year delay, dating from the first unauthorized publication until the filing of Rey's suit for injunctive relief, was not "unreasonable" in the circumstances, and we decline to disturb its findings on this issue.

on the books without regard to whether LHP's investors had recouped their investment on the television film project. Thus, the district court did not err in finding that LHP's withholding of the Houghton Mifflin book royalties was wrongful, and we affirm its ruling on this point.

2. The Sony Videos.

LHP's claim to the Sony video royalties is more complicated: assuming the videos were not covered by the contractual clause in the RMA, *see supra* Part II.A.1., might they nonetheless have been covered by the grant of rights in the RRL, which licensed LHP to produce the 104 episodes *"for television viewing"*? The district court thought not: the parties' "reference to television viewing . . . in a licensing agreement . . . does not include [video technology] . . . which probably was not in existence at the time that the rights were given."

a. "New Uses" and Copyright Law.

For purposes of the present appeal, we accept the uncontested district court finding that the relevant video technology "was not in existence at the time that the rights" were granted under the RRL in January 1979. Consequently, it must be inferred that the parties did not specifically contemplate television "viewing" of the "Curious George" films in videocassette form at the time the RRL was signed. Such absence of specific intent typifies cases which address "new uses" of licensed materials, *i.e.*, novel technological developments which

generate unforeseen applications for a previously licensed work. *See* Melville B. Nimmer and David Nimmer, 3 *Nimmer on Copyright* § 10.10[B] at 10-85 (1992) ("*Nimmer*") ("the . . . fact that we are most often dealing with a later developed technological process (even if it were known in some form at the time of execution) suggests that the parties' ambiguous phraseology masks an absence of intent rather than a hidden intent which the court simply must 'find' ").

Normally, in such situations, the courts have sought at the outset to identify any indicia of a mutual *general* intent to apportion rights to "new uses," insofar as such general intent can be discerned from the language of the license, the surrounding circumstances, and trade usage. *See, e.g., Murphy v. Warner Bros. Pictures, Inc.*, 112 F.2d 746, 748 (9th Cir. 1940) (grant of "complete and entire" motion picture rights to licensed work held to encompass later-developed sound motion picture technology); *Filmvideo Releasing Corp. v. Hastings*, 446 F. Supp. 725 (S.D.N.Y. 1978) (author's explicit retention of "all" television rights to licensed work, in grant of motion picture rights predating technological advances permitting movies to be shown on television, included retention of right to show motion picture on television). Where no reliable indicia of *general* intent are discernible, however, courts have resorted to one of several interpretive methods to resolve the issue on policy grounds.

Under the "preferred" method, *see* 3 *Nimmer* at 10-85, recently cited with approval in *SAPC, Inc. v. Lotus Development Corp.*, 921 F.2d 360, 363 (1st Cir. 1990), the court will conclude, absent contrary indicia of the parties'

intent, that "the licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license." *3 Nimmer* at 10-86. Under this interpretive method, the courts will presume that at least the possibility of nonspecific "new uses" was foreseeable by the contracting parties at the time the licensing agreement was drafted; accordingly, the burden and risk of drafting licenses whose language anticipates the possibility of any particular "new use" are apportioned equally between licensor and licensee. *See, e.g., Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 155 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968) ("[i]f the words [of the license] are broad enough to cover the new use, . . . the burden of framing and negotiating an exception should fall on the grantor" of the licensed rights).

An alternative interpretive method is to assume that

> a license of rights in a given medium (*e.g.*, 'motion picture rights') includes only such uses as fall within the unambiguous core meaning of the term . . . and excludes any uses which lie within the ambiguous penumbra (*e.g.*, exhibition of motion picture film on television). Thus any rights not expressly (in this case meaning unambiguously) granted are reserved.

See 3 Nimmer at 10-85; *see also Bourne Co. v. Walt Disney Co.*, 1992 Copyr. L. Rep. (CCH) ¶ 26,934 (S.D.N.Y. 1992) ("if the disputed use was not invented when the parties signed their agreement, that use is not permitted under the contract"). This method is intended to prevent licensees from " 'reap[ing] the entire windfall' associated with the new medium," *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988) (quoting Neil S. Nagano,

Comment, *Past Software Licenses and the New Video Software Medium*, 29 U.C.L.A. L. Rev. 1160, 1184 (1982)), and is particularly appropriate in situations which involve overreaching or exploitation of unequal bargaining power by a licensee in negotiating the contract. *See, e.g., Bartsch*, 391 F.2d at 154 & n.2 (citing *Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481 (3d Cir. 1955) (suggesting narrow construction where licensor was not "an experienced businessman" and had no "reason to know of the . . . potential" for new uses at the time he signed the relevant agreement)). It may also be appropriate where a particular "new use" was completely unforeseeable and therefore *could not possibly* have formed part of the bargain between the parties at the time of the original grant. *Cohen*, 845 F.2d at 854; *Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 188 N.E. 163 (1933). Obviously, this method may be less appropriate in arm's-length transactions between sophisticated parties involving foreseeable technological developments; in such situations, narrow construction of license grants may afford an unjustifiable windfall to the licensor, who would retain blanket rights to analogous "new uses" of copyright material notwithstanding the breadth of the bargained-for grant. *See generally 3 Nimmer* at 10-85 ("it is surely more arbitrary and unjust to put the onus on the licensee by holding that he should have obtained a further clarification of a meaning which was already present than it is to hold that the licensor should have negated a

meaning which the licensee might then or thereafter rely upon.").[7]

b. Video Technology as "New Use".

These fine-tuned interpretive methods have led to divergent results in cases considering the extension of television rights to new video forms. Thus, for example, in *Rooney v. Columbia Pictures Industries, Inc.*, 538 F. Supp. 211 (S.D.N.Y.), *aff'd*, 714 F.2d 117 (2d Cir. 1982), *cert. denied*, 460 U.S. 1084 (1983), the court determined that a series of contracts granting motion picture distributors a general license to exhibit plaintiffs' films "by any present *or future* methods or means" and "by any means *now known or unknown*" fairly encompassed the right to distribute the films by means of later-developed video technology.

> The contracts in question gave defendants extremely broad rights in the distribution and exhibition of pre-1960 films, *plainly intending* that such rights would be without limitation

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[7] The problem becomes particularly acute when the analogous technology develops so rapidly as to supplant the originally contemplated application of the licensed work, rendering the parties' original bargain obsolete. Thus, for example, broad grants of "motion picture rights," made before technological advances permitted the combination of moving images with *sound*, later were held, typically, to encompass the rights to sound motion picture technology; a narrower holding would have left the original license virtually worthless, despite its broad language, and would have provided the licensor with an undeserved windfall. *See, e.g., Murphy*, 112 F.2d at 748; *L.C. Page & Co. v. Fox Film Corp.*, 83 F.2d 196 (2d Cir. 1936).

> unless otherwise specified and further indicating that future technological advances in methods of reproduction, transmission and exhibition would inure to the benefit of defendants.

(Emphasis added.) Similarly, in *Platinum Record Co. v. Lucasfilm, Ltd.*, 566 F. Supp. 226, 227 (D. N.J. 1983), the court held that videocassette rights were encompassed by a broad synchronization license to "exhibit, distribute, exploit, market, and perform [a motion picture containing licensed musical composition] . . . perpetually throughout the world by any means or methods now or hereafter known." Again, the court rested its holding on the "extremely broad and completely unambiguous" contractual grant of *general* rights to applications of future technologies, which was held to "preclude[] any need in the Agreement for an exhaustive list of specific potential uses of the film." *Id.*

By contrast, in *Cohen*, 845 F.2d at 853-54, the Ninth Circuit concluded that a 1969 contract granting rights to "[t]he exhibition of [a] motion picture [containing a licensed work] . . . *by means of television,*" but containing a broad restriction reserving to the licensor "all rights and uses in and to said musical composition, except those herein granted," *did not* encompass the right to revenues derived from sales of the film in videocassette form. After deciding that "[t]he general tenor of the [contract] section [in which the granting clause was found] contemplate[d] some sort of *broadcasting or centralized distribution,* not distribution by sale or rental of individual copies to the general public," *see id.* at 853 (emphasis added), the court stressed that the playing of videocassettes, with their

greater viewer control and decentralized access on an individual basis, did not constitute "exhibition" in the sense contemplated by the contract.

> Though videocassettes may be exhibited by using a television monitor, it does not follow that, for copyright purposes, playing videocassettes constitutes "exhibition by television." . . . Television requires an intermediary network, station, or cable to send the television signals into consumers' homes. The menu of entertainment appearing on television is controlled entirely by the intermediary and, thus, the consumer's selection is limited to what is available on various channels. Moreover, equipped merely with a conventional television set, a consumer has no means of capturing any part of the television display; when the program is over it vanishes, and the consumer is powerless to replay it. Because they originate outside the home, television signals are ephemeral and beyond the viewer's grasp.
>
> Videocassettes, of course, allow viewing of a markedly different nature. . . . By their very essence, . . . videocassettes liberate viewers from the constraints otherwise inherent in television, and eliminate the involvement of an intermediary, such as a network.
>
> Television and videocassette display thus have very little in common besides the fact that a conventional monitor of a television set may be used both to receive television signals and to exhibit a videocassette. It is in light of this fact that Paramount argues that VCRs are equivalent to "exhibition by means of television." Yet, even that assertion is flawed. Playing a videocassette on a VCR does not require a standard television

> set capable of receiving television signals by cable or by broadcast; it is only necessary to have a monitor capable of displaying the material on the magnetized tape.

Id. at 853-54.

Most recently, in *Tele-Pac, Inc. v. Grainger*, 570 N.Y.S.2d 521, *appeal dismissed*, 580 N.Y.S.2d 201, 588 N.E.2d 99 (1991), the court held (one judge dissenting) that a license to distribute certain motion pictures "for broadcasting by television or any other similar device now known or hereafter to be made known" did not encompass the videocassette film rights. "Transmission of sound and images from a point *outside the home* for reception by the *general public* . . . is implicit in the concept of 'broadcasting by television.' Conversely, while one may speak of 'playing,' 'showing,' 'displaying,' or even perhaps 'exhibiting' a videotape, we are unaware of any usage of the term 'broadcasting' in that context." *Id.* at 523 (emphasis added).

c. Video Rights and the RRL.

Although the question is extremely close, under the interpretive methodology outlined above we conclude that the RRL's grant of rights to the 104 film episodes "for television viewing" *did not* encompass the right to distribute the "Curious George" films in videocassette form.

First, unlike the contracts in *Rooney* and *Lucasfilm*, the RRL contained no general grant of rights in technologies yet to be developed, and no explicit reference to "future methods" of exhibition. *Compare Lucasfilm*, 566 F. Supp. at

227; *Rooney*, 538 F. Supp. at 228. Rather, the RRL appears to contemplate a comparatively limited and particular grant of rights, encompassing only the 104 film episodes and leaving future uses of "Curious George" to later negotiation in the ancillary products agreement. Although the RRL conversely contains no "specific limiting language," *compare Cohen*, 845 F.2d at 853, we believe such limitation is reasonably inferable from the situation of the parties and the "general tenor of the section" in which the "television viewing" rights were granted.

Second, as properly noted in *Cohen*, "television viewing" and "videocassette viewing" are not coextensive terms. Even though videocassettes *may be*, and often are, viewed by means of VCRs on home television screens, *see, e.g., Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (noting prevalent use of videocassette recorders for "time-shifting" of commercial television programming); *Rooney*, 538 F. Supp. at 228 ("whether the exhibition apparatus is a home videocassette player or a television station's broadcast transmitter, the films are 'exhibited' as images on home television screens"), still, as the Ninth Circuit pointed out, a "standard television set capable of receiving television signals" is not strictly required for videocassette viewing. *Cohen*, 845 F.2d at 854. "[I]t is only necessary to have a monitor capable of displaying the material on the magnetized tape." *Id.* Indeed, a number of non-television monitors recently marketed in the United States permit videocassette viewing on computer screens, flat-panel

displays, and the like.[8] Thus, we find insufficient reliable indicia of a contrary mutual intent on the part of Rey and LHP to warrant disturbing the district court's implicit determination that the language of the RRL is not "broad enough to cover the new use." *Bartsch*, 391 F.2d at 155.

Finally, any lingering concerns about the correctness of the district court's interpretation are dispelled by the evidence that the RRL (including its "television viewing" clause) was drafted and proposed by LHP, a professional investment firm accustomed to licensing agreements. Rey, an elderly woman, does not appear to have participated in its drafting, and, indeed, does not appear to have been represented by counsel during the larger part of the transaction. Under these circumstances, as noted *supra* pp. 21-22, ambiguities in the drafting instrument are traditionally construed against the licensor and the drafter. *See also Nimmer* at 10-71 ("ambiguities [in licensing agreements] will generally be resolved against the party preparing the instrument of transfer"); *U.S. Naval Institute v. Charter Communications, Inc.*, 875 F.2d 1044, 1051 (2d Cir. 1989) (interpreting ambiguous copyright assignment against sophisticated drafting party); *see generally, e.g., Merrimack Valley Nat'l Bank v. Baird*, 372 Mass. 721, 724, 363 N.E. 2d 688, 690 (1977) ("as a general rule, a writing is

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[8] *See, e.g.*, Nathalie Welch, *ASK Flat-Panel Display Now Available in U.S.*, MacWeek, January 4, 1993 (noting availability of flat-panel LCD monitor capable of displaying VCR output); Alice Laplante & Stuart Johnson, *IBM Unveils Multimedia Adapter Board, Software Toolkit*, InfoWorld, February 12, 1990 (noting availability of MCA adapter card permitting videocassette images to be viewed and manipulated on PS/2 color computer monitor).

construed against the author of the doubtful language . . . if the circumstances surrounding its use and the ordinary meaning of the words do not indicate the intended meaning of the language").

Accordingly, as the Sony videocassette sales were not encompassed by the RRL, but governed exclusively by the APA, we find no conflict between the terms of the documents, and we affirm the award of royalties to Rey under the APA.

B. The "Junk Products" Counterclaim.

We next turn to the LHP counterclaim that Rey breached the APA by "wrongfully withholding" approval of ancillary products she considered "junky."[9] The district court agreed with LHP, holding that

> [The Ancillary Products Agreement] clearly contemplated the exploitation of Curious George. . . . Based on the testimony of Ms. Stoebenau and Mr. Konkle, I find that means that there may be produced with the character junk products, junky products. . . . Plaintiff [had] the right . . . to insist on . . . an honest and good depiction *of the character.* She did not have the right to disapprove the quality *of the product*. . . . She had [the] right to disapprove an incorrect, improper, bad depiction of Curious George.

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[9] LHP does not challenge the district court ruling that its counterclaims for interference with contractual and advantageous business relationships, breach of the implied covenant of good faith and fair dealing, and unfair business practices under chapter 93A were time-barred.

(Emphasis added.) The court further found:

> [A]lthough Mrs. Rey unquestionably approved many products, I find that she improperly disapproved the Sears project for the reasons just outlined; that she was unreasonable with respect to the Eden project, and that she was so rude to Ms. Craighead as to abort the second and perhaps later trilogies of the software.

(Emphasis added.) After careful consideration, we must agree with Rey that the district court misapplied the APA.

The product-approval procedure under the APA required that:

> LHP will submit product or other information sufficient to describe the product to you for prior approval. When a product is submitted . . . we will wait two weeks before proceeding. If we do not receive any disapproval of the product from you within two weeks we are entitled to presume that you approve of the product. If you do disapprove of any product, you will, if feasible, suggest such changes to LHP as may render the product acceptable to you, or, if you cannot make such feasible suggestions, you may refuse to approve the product. Product approval will not be unreasonably withheld.

The term "product" is not defined in the APA. It is black letter law, however, that where "the words of an agreement are plain and free from ambiguity, they must be construed in their ordinary and usual sense," *Boston Edison Corp. v. FERC*, 856 F.2d 361, 365 (1st Cir. 1988), and, as we have noted in another context, the word 'product,' taken in its ordinary and usual sense, "simply means 'something produced.' " *See K Mart*, 892 F.2d at 1085

(quoting Webster's Third New International Dictionary 1810 (1981)). *See also id.* at 1084 ("where possible, words should be given their natural meaning, consistent with the tenor of contractual terms"); *id.* at 1085 ("[I]t is sufficient [to avoid ambiguity] if the language employed is such that a reasonable person, reading the document as a whole and in realistic context, clearly points toward a readily ascertainable meaning"). Considered in context, we think the "ordinary and usual" meaning of the broad term "product" plainly indicates the parties' mutual intention that each *article* bearing the likeness of "Curious George" – not merely the likeness itself – be approved by Rey.

By contrast, the narrow interpretation urged by LHP would convert the term "product" into a mere synonym for the "Curious George" mark. Nowhere does the APA intimate that the parties contemplated that the term "product" was to be given so restrictive an interpretation. Indeed, elsewhere the APA plainly precludes the narrow interpretation urged by LHP by expressly *distinguishing* between the mark and the "product" with which it is used. *See* APA p.3 ("[LHP] will not sell or authorize the sale or distribution of any *product on or in connection with which 'Curious George' is used . . .* ") (emphasis added); *id.* at 3-4 (referring to separate approval procedure for "*apparel products*").[10] As the APA is unambiguous in this

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[10] The interpretation we adopt accords with the common-sense understanding recognized in other areas of intellectual property law. Thus, for example, in the trademark context, courts frequently have recognized that "the trademark holder [has] the right to control the quality of the goods manufactured and sold under its trademark," *Shell Oil Co. v. Commercial Petro-*

regard, the trial testimony of LHP's witnesses, Cheryl Stoebenau and Glen Konkle, need not be considered.

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leum, Inc., 928 F.2d 104 (4th Cir. 1991) (emphasis added); *El Greco Leather Products Co. v. Shoe World*, 806 F.2d 392, 395 (2d Cir. 1986), *cert. denied*, 484 U.S. 817 (1987)) ("The actual quality of the goods is irrelevant; it is the *control of* quality that a trademark holder is entitled to maintain") (emphasis added); *see also Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992) (hereinafter *Produits Nestle*) ("[r]egardless of the offending goods' actual quality, courts have issued Lanham Act injunctions solely because of the trademark owner's inability to control the quality of the goods bearing its name"). "The rationale for this requirement is that marks are treated by purchasers as an indication that the trademark owner is associated with the product." *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977). Indeed, under trademark law the protection of the mark may be lost if the licensor *fails* to control the quality of the licensed goods; failure to control the quality of licensed goods can constitute an abrogation of the licensor's duty to protect the informational value of the mark. *See Kentucky Fried Chicken*, 549 F.2d at 387; *see also Church of Scientology Int'l v. Elmira Mission of Church of Scientology*, 794 F.2d 38, 43 (2d Cir. 1986). LHP argues that the licensor's duty of control is less stringent where the mark is licensed for use in a context unrelated to the licensor's original business. *See Winnebago Indus., Inc. v. Oliver & Winston, Inc.*, 207 U.S.P.Q. 335, 340 (T.T.A.B. 1980). Whatever its merit as a general matter, however, this proposition is unavailing in the present context: the APA licensed the use of "Curious George" for purposes both *related* and *unrelated* to the original (literary) use of the "Curious George" mark, and in no instance does it distinguish between "related" and "unrelated" uses.

Similarly, under copyright law, while a licensor has no "moral right" to control the quality of licensed depictions, *see Gilliam v. American Broadcasting Cos.*, 538 F.2d 14, 24 (2d Cir. 1976), she may insist, contractually, on approval provisions to "assure quality control and high standards in the exploitation" of her creative work." *See Clifford Ross Co. v. Nelvana, Ltd.*, 710

Extrinsic evidence may not be utilized to contradict the unambiguous terms of a written agreement. *See LTX Corp.*, 926 F.2d at 1263-64; *Triple-A Baseball Club Assoc. v. Northeastern Baseball, Inc.*, 832 F.2d 214, 221 (1st Cir. 1987), *cert. denied*, 485 U.S. 935 (1988).

Even though the APA's product approval clause did not preclude Rey from rejecting products based on their "junky" quality, it did obligate her to act "reasonably" in doing so. The duty to act "reasonably," like a duty to employ "best efforts," or to act in "good faith," is not reducible to "a fixed formula[, and] varies with the facts and the field of law involved." *See Triple-A Baseball Club*, 832 F.2d at 225 (discussing contractual "best efforts" clause); *see generally* Robert S. Summers, *"Good Faith" in*

F.Supp. 517, 520 (S.D.N.Y.), *aff'd. without opinion*, 883 F.2d 1022 (2d Cir. 1989); *see also Zim v. Western Pub. Co.*, 573 F.2d 1318, 1324 (5th Cir. 1978) (author has "profound interest, both professional and financial, in maintaining the quality of [published products], particularly those already published under [her] name"). *Clifford Ross* is particularly instructive, as it too involved a "classic literary property," the "Babar" children's book character. Upholding a contractual provision which called for the copyright holder's participation in the selection of licensing agents for the character, and enjoining the issuance of further licenses absent the holder's approval, the court concluded that there would be "irreparable harm" to the future profitability of "Babar," and to the artistic reputation of the holder, "if the exploitation of Babar continue[d] without regard to [the licensor's] high standards of quality control." *Clifford Ross*, 710 F.Supp. at 520. *Compare Geisel v. Poynter Products, Inc.*, 283 F.Supp. 261 (S.D.N.Y. 1968) (issuing injunction under Lanham Act; finding likelihood of "irreparable harm" to author's reputation where "Dr. Seuss" toys, which author found to be "tasteless, unattractive, and of an inferior quality," were marketed as authorized by author).

General Contract Law and the Sales Provisions of the Uniform Commercial Code, 54 Va. L. Rev. 195, 201, 204-07 (1968) (discussing "good faith" as "phrase without general meaning," incapable of precise definition). In a somewhat different context, the Massachusetts courts have interpreted contractual clauses preventing the "unreasonable withholding of approval" of commercial sublessees, as imposing a duty to act "in accordance with usual standards of reasonableness." *See Nassif v. Boston & M. R. Co.*, 340 Mass. 557, 564, 165 N.E.2d 397, 401-02 (1966); *Worcester-Tatnuck Square CVS, Inc. v. Kaplan*, 33 Mass. App. Ct. 499, 601 N.E.2d 485 (1992). It falls to us to define "usual standards of reasonableness," in the present context, in a way which accords with the contracting parties' intent, yet avoids rendering the "reasonableness" standard either purely illusory or duplicative of more particular contractual terms.

We think the APA's proscription of "unreasonable" product disapproval required, at a minimum, that Rey articulate some *material* reason, subjective or otherwise, for disapproving a product. That is to say, Rey could not withhold product approval without ascribing a reason, nor for reasons immaterial to the "Curious George" mark, its proposed use or commercial potential, or unrelated to Rey's artistic and reputational identification with the mark and ancillary products. Moreover, assuming there existed some material ground for withholding product approval, it would need to be communicated, consistent with contractual specifications, "within a reasonable time and in a reasonable manner, *i.e.*, in a manner which makes it possible for [the licensee] to rework the [product] in order to meet . . . approval." *See Zim*, 573 F.2d at

1324. Finally, the reason for withholding product approval could not be so preclusive as to frustrate the *fundamental contractual assumptions* on which the APA was formed. In the context of this case, for example, Rey could not impose approval standards which would effectively eliminate all potential for profitable use of the "Curious George" property; the parties' mutual assent, in the APA, that Rey would be entitled to minimum royalty payments, plainly implied a mutual understanding that *some* licensing of the "Curious George" character would be acceptable, in order to enable sales from which royalties might be generated. *Cf.* Steven J. Burton, *Breach of Contract and the Common Law Duty to Perform in Good Faith*, 94 Harv. L. Rev. 369, 403 (1980) ("discretion in performance may be exercised legitimately [only] for the purposes reasonably contemplated by the parties").

The district court supportably found that Rey approved "many products," including the original film series, the Houghton Mifflin books, the Sony videocassettes, the first series of DLM software, and the Eden plush toys (as modified). In addition, Rey testified, without contradiction, that she had approved "children's sweatshirts, film strips, earmuffs and school bags for children . . . buttons, children's books . . . paper doll books[,] [w]rist watch, alarm clocks, wall clocks, footwear, little tennis shoes for children, . . . [b]each slippers, . . . " After reviewing the record, we are convinced that Rey did not utilize objectively unreasonable criteria for approving products under the APA. We turn to the particular product rejections challenged on appeal.

1. The Sears Pajamas.

The district court ruled that Rey acted unreasonably by basing her disapproval of the Sears project on the "junky" quality of the pajama material which would bear "Curious George's" likeness.[11] As we have stated, *see supra* at pp. 32-34, the basis for the district court's finding of "unreasonableness" was insufficient as a matter of law. Rey did not unreasonably withhold approval of the Sears pajama project as unbefitting the "Curious George" image protected by her copyright, because the grounds for withholding approval were reasonably related to the integrity and commercial value of her artistic creation. *See Clifford Ross*, 710 F.Supp. at 520.[12]

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[11] The district court did not address the aesthetic reasons Rey gave for rejecting the Sears project, *viz.*, the "bright yellow" color of the pajama material and the unrecognizable "plump" depiction of "Curious George." We believe these grounds were not unreasonable.

[12] LHP nonetheless maintains that Rey's rejection of the Sears pajama project was "unreasonable," insofar as it was not communicated in a manner which "ma[de] it possible . . . to rework the [product] in order to obtain . . . approval." *Zim*, 573 F.2d at 1324. LHP argues that time pressures inherent in the Sears catalog deadlines made the presentation of the pajamas a "one-shot deal," with "reworking" of the design impossible once rejection had occurred. It insists that the "lousy material" in the pajamas – a basis for Rey's disapproval – was required by federal fire safety standards; no other material was available for use in the product.

Even assuming these fact-based arguments are well founded, however – an assessment we are in no position to make on the present record – they are beside the point: the APA's "reasonableness" constraint did not oblige Rey to apply lower standards, or to relax her vigilance in policing ancillary

2. The Beach Paper Products.

Our conclusion that Rey reasonably rejected the Sears project disposes of LHP's claim for damages relating to the Beach paper products as well. Rey never saw, much less "disapproved," the Beach paper products: as the undisputed evidence shows, Beach withdrew its proposal when the Sears project fell through; it never reached agreement with LHP or presented any product to Rey for approval. Therefore, LHP's claimed right to recover potential profits from the Beach project could be justified, if at all, only as *consequential damages* resulting from a wrongful rejection of the Sears project. As the Sears project was not wrongfully rejected under the terms of the APA, LHP is not entitled to consequential damages related to Beach's anticipated profits. *See, e.g., Ryan v. Royal Ins. Co.*, 916 F.2d 731, 744 (1st Cir. 1990) ("unless appellants can demonstrate that [appellee] breached a duty owed to them. . . . consequential damages will not lie").

3. The Eden Plush Toys.

The district court ruled that Rey acted unreasonably with respect to the Eden plush toys project, but the court did not state whether its ruling was based on Rey's objections to the "junky" nature of the proposed product, or some other ground. We conclude, nonetheless, that

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uses for the "Curious George" character, merely because deadlines were tight or objections to the product *could not* be cured. *See* APA at p. 3 ("if you disapprove of any product, you will, *if feasible*, suggest such changes to [LHP] as may render the product acceptable to you") (emphasis added).

remand is unnecessary in the present circumstances, *see Produits Nestle*, 982 F.2d at 640-41 ("when a trial court misperceives and misapplies the law, remand may or may not be essential"), since LHP did not present sufficient evidence to enable a finding that Rey's actions with respect to Eden were "unreasonable." *See id.* at 642 (quoting *Dedham Water Co. v. Cumberland Farms Dairy, Inc.*, 972 F.2d 453, 463 (1st Cir. 1992)).

Applying the standard articulated *supra* pp. 33-34, "reasonableness" in the present context turns, first, on whether the reasons for rejecting a proposed product were "material." As recently noted by the court, "[t]here is no mechanical way to determine the point at which a difference becomes 'material.' Separating wheat from chaff must be done on a case-by-case basis." *Produits Nestle*, 982 F.2d at 641. In reference to conventional commercial products, such as the Perugina chocolates licensed in *Produits Nestle*, the appropriate test is whether the ground for refusing to approve a version of a licensed product is one which "consumers would likely consider relevant." *Id.* In the context of an artistic creation such as "Curious George," however, the highly subjective element of "creativity," connecting product and author, implicates intangible considerations such as the "total concept and feel" of the product. *See Roth Greeting Cards v. United Card Co.*, 429 F.2d 1106 (9th Cir. 1970); *see also Sid & Marty Krofft Television Productions, Inc. v. McDonalds Corp.*, 562 F.2d 1157 (9th Cir. 1977). We believe an author's discretionary right to disapprove an ancillary product, as not in keeping with the aesthetic image the author envisions for her artistic creation, reasonably may be made to depend on product conformity, at least where,

as here, conformity with the author's aesthetic standard would neither set unreasonably high levels of commercial practicality nor foreclose all *prospect* of profitability on which the contract was predicated. *See supra* at pp. 33-34.

The evidence before the district court clearly showed that Rey imposed a demanding aesthetic standard for the design of the Eden Toys doll.[13] Eden's frustration at Rey's meticulous immersion in the details of toy design may indeed be understandable, the more so perhaps because of the irascible terms in which Rey appears to have chosen to couch her product criticisms on occasion. Even viewing the evidence as a whole in the light most flattering to LHP, however, we cannot conclude that her proposed changes were unrelated to her legitimate artistic concerns or to her desire to protect the aesthetic integrity of the "Curious George" image.

"Reasonableness" likewise requires, of course, that changes be made "within a reasonable time and in a reasonable manner, *i.e.*, in a manner which makes it possible for [the licensee] to rework the [product] in order to meet . . . approval." *See Zim*, 573 F.2d at 1324. The evidence before the district court, which we have examined in detail, did not show that Rey's product criticisms, though caustic, were made in an unreasonable time or manner. And although the record is replete with testimony that Eden and LHP grumbled about Rey's product criticisms, neither Eden nor LHP ever communicated *to*

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[13] For example, she relocated the felt patterns on "Curious George's" face by a few millimeters and rejected particular colors and color combinations which Eden thought would make the doll more saleable.

Rey, prior to the present lawsuit, that her proposed changes to the Eden plush toy products were impracticable or even unduly burdensome.[14] Since Rey's objections to Eden's original toy design were based on criteria reasonably related to her legitimate artistic and aesthetic concerns about the proposed ancillary product, and were communicated in a time and manner which would permit Eden to conform the product, we conclude that Rey's rejection of Eden's product designs was not "unreasonable."

4. The DLM Software.

Finally, we consider whether Rey's alleged rudeness to Donna Craighead, the DLM project manager, amounted to an "unreasonable withholding of approval" of the DLM software project in violation of the APA. We conclude that it did not. As all parties agree, the licensing arrangement between DLM and LHP covered only the first installment in the proposed DLM software trilogy, the first installment was *approved* by Rey prior to her telephone conversation with Craighead, and DLM continued to manufacture and market the first-installment software even after Rey's intemperate remarks. Given the fact that Rey's statements led to no curtailment in the production or sale of the licensed software, we are unable to discern any relevant respect in which Rey's statements

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[14] For example, the President of Eden Toys testified: "[W]hat we tried to do, therefore, was to get very specific, and say: If you want it moved three millimeters to the left, *we'll move it*, but let's all agree on that's where it's going to be. . . . " (Emphasis added.)

to Craighead could be considered a "rejection" of the product for which LHP had issued its license to DLM.

The district court apparently thought that Rey's harsh criticism of the first software installment may have discouraged DLM from undertaking "second and . . . later" installments in the proposed trilogy. Here, however, the relevant consideration is that these subsequent installments *had not yet been licensed* by the time Rey communicated her criticism about the *first* software product and manual. Even were Rey's criticism actionable in tort, as an "intentional interference with contractual relations," *see* Restatement (Second) of Torts § 766, or as a breach of the implied good-faith duty not to interfere with LHP's performance under the APA, it nevertheless was not actionable in contract. Under the plain terms of the APA, Rey could not "reject" products not yet licensed or presented for approval.[15]

LHP attempts to extend the APA's plain language by characterizing Rey's criticism of the DLM project as "essentially *revok[ing]* product approval [of] the DLM software *concept*" already approved by Rey. LHP does not define the term "software concept," but clearly uses it to encompass not only the first DLM product but all subsequent installments in the planned trilogy. Such an interpretation would not withstand analysis under the language of the APA, however, nor comport with the undisputed record evidence.

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[15] The district court ruled that the tort claims arising out of "most of" Rey's conduct were time-barred. LHP does not challenge this ruling. *See supra* n.9 and accompanying text.

We reject LHP's overly expansive definition of "product" in the present context. By lumping all DLM software products under the umbrella of a single software "concept," LHP would eviscerate Rey's retained right to grant, or reasonably withhold, approval for distinct generations of software products in a particular software series. All *conceptually* related articles identified by LHP as part of the same series would be deemed approved, sight unseen; the policing of the integrity of the conceptual relationship presumably having ceased to be a matter of legitimate concern to Rey. Courts universally recognize that the elasticity of contract language is limited by the natural meaning of its terms and their context. *See K Mart*, 892 F.2d at 1085; *Boston Edison Corp.*, 856 F.2d at 365. LHP's interpretation strips the "product approval" term from its context and depletes its natural meaning.

CONCLUSION

Under the APA, Rey is entitled to recover the royalties wrongly withheld on the Houghton Mifflin books and Sony videos; and we affirm the district court rulings respecting these claims. The APA likewise entitled Rey to withhold approval of licensed ancillary products on reasonable grounds; thus, LHP was not entitled to recover damages for Rey's reasonable exercise of her right to withhold approval of the Sears pajama project, the Beach paper products, the Eden Toys project, or the DLM

software.[16] Accordingly, the damages awards to LHP are vacated.

Affirmed in part, reversed in part; costs are awarded to Rey.

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[16] We have considered all other arguments advanced by the parties and find them either to be wanting or, alternatively, moot. Without limiting the generality of the foregoing, we note that, because we conclude that Rey reasonably withheld approval of the Sears project, the Eden plush toys, and the DLM software, we need not consider whether LHP's estimates of lost future profits from these products were sufficiently certain and nonspeculative to support an award of damages. *See, e.g., Hendricks & Assocs., Inc. v. Daewoo Corp.*, 923 F.2d 209, 217 (1st Cir. 1991) (citing *John Hetherington & Sons*, 210 Mass. 8, 21, 95 N.E. 961 (1911)); *Redgrave v. Boston Symphony Orchestra, Inc.*, 855 F.2d 888, 893 (1st Cir.), *cert. denied*, 488 U.S. 1043 (1988). Nor need we consider whether the damages awarded LHP for these products should have been reduced by 50%, reflecting Rey's share of product royalties under the pre-1988 APA formula, or by 33%, under the revised APA formula for products licensed after January 1, 1988.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 92-1139

MARGARET REY,
Plaintiff, Appellee,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellants,

No. 92-1177

MARGARET REY,
Plaintiff, Appellant,

v.

RICHARD G.D. LAFFERTY, ET AL.,
Defendants, Appellees.

ORDER OF COURT

Entered: February 18, 1992

Upon motion,

It is ordered that the above-captioned appeals be consolidated.

In 92-1139, It is ordered that the time for appellants to file their statement of issues and designation of the contents of the appendix be enlarged to and including February 24, 1992.

Further, It is ordered that the time for appellants to file their brief and the appendix to their brief be enlarged to and including March 19, 1992.

By the Court,

FRANCIS P. SCIGLIANO, CLERK.

By /s/ Illegible
Chief Deputy Clerk

[cc: Messrs. Hameline, Green, Donelan, and Ms's. Perrelli and Palmieri]

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

MARGRET REY, Plaintiff v. RICHARD G.D. LAFFERTY, LAFFERTY, HARWOOD & PARTNERS LTD., CURGEO AGENCIES and CURGEO OVERSEAS, INC. Defendants	Civil Action No. 91-10501-Z B.B.O. #218710

ORDER AND FINAL JUDGMENT

This matter having come on for trial and the issues having been duly tried, it is hereby Ordered and Adjudged that:

1. The November 5, 1979 letter agreement among and between Margret Rey, Lafferty, Harwood & Partners, Ltd. and Milktrain Productions, Inc. ("1979 Agreement") for the production and distribution of the 104 film episodes using Curious George did not authorize the production and distribution of the 104 film episodes or any part thereof in any manner other than television, including in particular not in book or videotape form;

2. The Court therefore construes that the Ancillary Products Agreement of January 3, 1989 (Ancillary Products Agreement) was the contract through which the

production, distribution and sale of books and video tapes (based on the 104 short film episodes) and other Ancillary Products were authorized. The Court therefore determines that since the Ancillary Products Agreement had been terminated the Defendants had no further right to license or authorize the distribution of the books.

3. Damages due from Defendants to Plaintiff Margret Rey on sales of Ancillary Products for royalties received by Defendants through June 30, 1991 total $256,327.00;

4. Damages due from Margret Rey to Defendants on their counterclaim total $317,000.00. Accordingly, the net amount due Defendants from Margret Rey, after offsetting the $256,332.00 due from Defendants, is $60,668.00. Judgment shall enter in that amount.

Entered: January 15, 1992

/s/ Rya W. Zobel
Rya W. Zobel
United States District Judge

(p. 1) UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

CA 91-10501-Z ZOBEL, D. J.

MARGRET REY

v.

RICHARD G.D. LAFFERTY,
LAFFERTY, HARWOOD & PARTNERS LTD.,
CURGEO OVERSEAS, INC.

Fifth Day of Trial
Decision of the Court

APPEARANCES:

For the Plaintiff:

H. Joseph Hameline, Esq., MINTZ LEVIN COHN FERRIS GLOVSKY and POPEO, P.C., One Financial Center, Boston MA 02111.

For the Defendants:

Charles Donelan, Esq., and Katherine E. Perrelli, Esq., DAY BERRY & HOWARD, 260 Franklin Street, Boston MA 02110.

Courtroom 3
Federal Courthouse
Boston, Massachusetts

November 8, 1991

Computer-Aided Transcription

(p. 2) Decision of the Court

It seems to me that that the first question I need to address is which agreement governs the production of books. That's the essential dispute between the parties. And the answer to that depends, in the first instance, on what the contract says, not what was Mr. Lafferty's intent.

Now, the 1947 – 1979 contract, the one that Mrs. Rey signed, says, in Paragraph 3(a), "that we, Milktrain, shall have the right to produce 104 episodes," et cetera. It says in 3(e), "If we produce at least 100 episodes within a certain period, we have the right to produce a television special or series," and it says in 3(f), "that we shall have the option to produce another 104."

It also says in 3(j), "that recognizing that the television series may well enhance commercial exploitation, you, Mrs. Rey, are willing to enter into negotiations for an agreement with us to be drawn up at a later date which entitles us to some share of the net income from the exploitation of the ancillary products."

Exhibit 3, which was the proposed agreement between the parties, in that, one, there was reference to ancillary products, and Mrs. Rey specifically rejected the clause that would have given rights to ancillary products. The fact that Mr. Lafferty or LH&P may have told the investors that it had greater rights than those that were in fact given by Mrs. Rey, (p. 3) cannot and does not bind her. Even if she knew and saw the language before she signed her agreement, she is bound only by what she signed. And what she signed does not give them the right to do anything more than to make the 104 episodes, to, under certain circumstances, make a feature film or TV

series and, under certain other circumstances, make another 104 episodes.

That result is also confirmed by the later chronology of the book production and the parties' conduct and the fact that there was no book production until the 1983 agreement was signed by the parties.

I find, furthermore, that the Sony videotapes are also not included in the 1970 – 1979 contract, in part because the parties explicitly refer to those in the '83 agreement and, also, because the case law appears to suggest that although television – there's reference to television viewing, that in a licensing agreement that does not include anything that probably was not in existence at the time that the rights were given.

To the extent that Mr. Lafferty relied, he relied on his own representations and not on Mrs. Rey's, so there cannot be reliance damages assessed against her. And I think any damages that may be payable are not based on any reliance.

The second question, having now determined that the '79 agreement gave right only to make the 104 episodes, as is (p. 4) relevant to the dispute between the parties, the parties then entered into a 1983 ancillary products agreement. And the next question is, pursuant to the counterclaim, whether Mrs. Rey breached that agreement.

Let me say, incidentally, I do not think that the defendant has a viable cause of action for tortious interference by Mrs. Rey. Because as to most of her conduct, it is outside of the statute of limitations. With respect to the

books and the most recent events immediately before the lawsuit, I do not think there can be a claim because she asserted the right not to have the book produced under the '79 agreement, and that was her right. It was a correct statement of the rights that she had. The lawsuit was brought in good faith because there was a serious dispute between the parties as to the meaning of their contractural relationships, and I do not think that she can, therefore, be held to have tortiously interfered with the defendant in this respect.

However, she is bound by the provision that prior approval shall not be unreasonably withheld.

Now, first, the agreement clearly contemplated, this is the 1983 agreement, as I see it, as I heard the evidence, that agreement clearly contemplated the exploitation of Curious George. Based on the testimony of Ms. Stoebenau and Mr. Konkle, I find that that means that there may be produced with the character, junk products, junky products. Without (p. 5) question, that is the case under a licensing agreement like this.

Second, the plaintiff did have the right, as Mr. Hameline has pointed out, to insist on approving an honest and good depiction of the character. She did not have the right to disapprove the quality of the product. That is, the fact that the pajamas were made of lousy material was not for her to approve or disprove. All she could do was approve or disprove or, rather, she had right to disapprove an incorrect, improper, bad depiction of Curious George.

Third, although Mrs. Rey unquestionably approved many products, I find that she improperly disapproved

the Sears project for the reasons just outlined; that she was unreasonable with respect to the Eden project, and that she was so rude to Ms. Craighead as to abort the second and perhaps later trilogies of the software.

Concerning the Nelvana, the plaintiff, admittedly, was never under an obligation to agree to a feature film or a TV series, so she cannot be charged with having done anything with respect to any such product line.

Now, that bringes me to the issue of damages, having determined that she has unreasonably withheld approval or unreasonably aborted certain of these, of these exploitation endeavors. I do not accept Ms. Stoebenau's computation, as it was based on a synergistic film TV master toy concept which (p. 6) was unavailable to the defendant in light of the contract that excluded from exploitation by means of a feature film and/or TV series. I do not accept Mr. Konkle's projection, as it is speculative. The most that he said, most he could say, was that, quote, we may be able to get 750 to a million dollars. I therefore look to the specific instances of loss, due to the specific instances of Mrs. Rey's unreasonableness as I have found it. And that brings me, then, to four items.

The Sears project. And as to that I accept Mr. Konkle's testimony, that it would have brought in 30,000 in royalties in 1987 and 150,000 in 1988. I do not go beyond that because I do also accept Ms. Stoebenau's testimony that these licensed projects have a short life, and there is no evidence before me to suggest that it would have gone beyond that.

With respect to the DLM software, there was a loss of 30,000 in 1987 and a loss of 35,000 in 1988, based on Ms. Craighead's testimony.

There was a loss with respect to Beach that was to have produced in concurrence with the Sears pajamas, some paperware, and that Mr. Konkle estimates at 30,000 in '87 and 30,000 in '88.

And then there is Eden. I accept as a projection of sales an average of the estimates of Mr. Gund and Mr. Miller; that is, Mr. Gund produced sales of something in excess of a (p. 7) million, Mr. Miller projected two to three million. Mr. Gund said his sales were down because the economy is bad now but they would be better when the economy is good, and in '87 and '88 the economy was still good. So, I accept a figure of $2 million gross sales a year.

Now, I need to deduct from that 300,000 of actual sales that Eden did make and as to which royalties have already been paid. And in my computation, I also accept not the 8 percent figure that Ms. Stoebenau testified to but the 5 percent figure that was actual figure in the Eden contract, as I understand it. And that leaves me to lost royalties of 85,000 for '87 and 85,000 for '88.

When I add all of those those, I arrive at a total for '87 of 175,000, for 1988 of 300,000. I need to deduct from that the one third that Mrs. Rey would have been entitled to, in any event – and I use one third because these are contracts that, as I have found, would have been made in 1987, not '88 – leaving a figure of 317,000 of loss, if you will, that is appropriate to charge to Mrs. Rey.

Now, I further find that there is owed by the defendant to Mrs. Rey, under the '83 agreement, royalties as computed by the attachment that Mr. Hameline had prepared, as to which there was apparently no dispute, the sum of $256,332, – this is without the cents. And when I deduct that from the amount owed by Mrs. Rey to the defendant, I find that the net (p. 8) due from the plaintiff to the defendant is $60,668.

And I will enter judgment accordingly.

And I wish to thank all of you for the professional presentations that you have made in this case.

Thank you.

Mr. Hamline , if you would kindly prepare a form of judgment and let Mr. Donelan approve it, I will then sign it.

Thank you.

[Whereupon, the trial was concluded at 11:20 a.m.]

MILKTRAIN PRODUCTIONS INC.
901 Bleury Street
Room 360
Montreal, Quebec

SCHEDULE "a" & "b"
as referred to in
Agreement of January 1
1978 between Milktrain
Productions Inc and
Lafferty, Harwood &
Partners
January 17, 1978

Mrs. Margret Rey
c/o Mr. Herb Galewitz
299 Madison Avenue
New York, New York 10017

Re: "Curious George"

Dear Mrs. Rey,

This letter is to confirm our agreement and arrangements for the exploitation by us of those rights granted to us hereinbelow with respect to "Curious George". This letter and agreement will replace all previous agreements between us and will constitute the final contract.

1. You represent and warrant that individually and as Executrix o/w/o H.A. Rey, you are the sole owner of all rights in and title to the literary and design character "Curious George" created by the late H.A. Rey. On or about the 14th of October 1977, you granted an option* for a period of six months from that date to

* We are the asignees of such option.

acquire the world wide rights to produce and distribute short television films using such character by payment to you of the sum of One Thousand Dollars ($1,000.00). This is to confirm that on the 23rd day of November 1977, you accepted the sum of One Thousand Dollars ($1,000.00) with the understanding that the six month option referred to above began as of and from the said date. (November 23, 1977).

2. We wish to confirm that on or about the 14th day of October 1977 it was agreed to that we would have the right to extend the said option for one additional period of six months by paying to you a further sum of One Thousand Five Hundred Dollars ($1,500.00) at any time before expiration of the first six month period and that upon our written exercise of that option, we would have the right to produce (within a two year period from the date of exercise) one hundred and four (104) four minute film episodes based on the said character solely for broadcast on television. It was agreed to that at the time of exercise of our option we would pay you the difference between Five Thousand Dollars ($5,000.00) and any option monies previously paid to you for such right. This agreement now confirms the above understanding and that the option must be exercised by us prior to the 23rd day of May 1978.

Should this option be exercised by us, it is agreed to that:

1. We shall pay to you the sum of Five Hundred Dollars ($500.00) for each episode that we produce during this two year period. Each payment would be made to you within ten days of our completing our initial film or tape of our art work. In addition, we agree to pay to you an amount equal to ten percent (10%) of any sums paid to us for any broadcast of any film after expiration of the two year period.

2. You are to receive the sum of One Hundred and Fifty Dollars ($150.00) per film (per episode) for acting as a copy editor and shall receive credits as such, if you so request. However, if circumstances prevent you from performing the function of copy editor within a reasonable time, we shall have the option to proceed without your services in this area.

   Prior to episodes being written, we will submit to you a list of topics for your approval or disapproval. If not disapproved by you within one week of receipt, the topic shall be deemed approved.

3. The length of each episode (film) will not be less than four minutes and will not be more than five and one half minutes.

4. If we produce at least one hundred of the episodes within the two year period, we shall, upon payment to you of Two Thousand Dollars ($2,000.00) at any time, and before the end of that two year period, have an option for one year to produce a television "special" or series based on the original seven "Curious George" books on terms and conditions (including compensation to you) that we shall both agree upon.

5. We shall have the right to combine episodes so that more than one episode can be shown consecutively at a given time. However, you shall still be paid on a per episode basis (four to five and one half minutes each) based upon the total time required to show the joined episodes.

6. You shall have the right to approve or disapprove the original art work for the films, in your sole discretion. Such right shall not be unreasonably withheld. After presentation to you, if not disapproved by you within ten days from receipt, it shall be deemed approved by you.

7. Payments shall be made to you in U.S. Dollars with appropriate explanations of the sums paid.

8. You warrant and represent to us that as condition for our making payment to you and undertaking to abide by all the other terms and conditions of this agreement that:

   a) there are presently no outstanding agreements, contracts or options with or by you with any other person, corporation, organization or firm granting any rights to the use of "Curious George" for present or future television showing which would conflict with those of the undersigned* or prevent or impede the production of the film episodes comtemplated herein should we exercise our option, nor shall any such rights, options or undertakings be given by you in the future which would in any way conflict with the present undertaking and any extensions thereto should we exercise our subsequent options provided for elsewhere herein:

   b) should we exercise our original option, it is understood and agreed to that this agreement shall be extended for an additional two periods of two years each so that we shall have the right to produce up to an additional one hundred and four episodes in each additional two year period should we exercise each of the said options on the same terms and conditions as are provided for herein except that your royalty and editor's fee as originally provided for herein shall be

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*Except an existing film that was produced a number of years ago, based on one of the original 7 Curious George books, which appears & might continue to appear from time to time as insert T.V. programming on such shows as Captain Kangaroo.

increased by ten percent (10%) in each of the two-year option periods;

c) we agree that we shall not attack your title in and to the licensed name "Curious George" or and copyright or trade mark or trade name pertaining thereto, all of which you warrant to us that you are in possession of and own, nor will we attack the validity of the license which you grant to us to use the said name and/or copyright and/or trade mark. We furthermore undertake:

   i) that we will not harm, misuse or bring into discrepute the licensed name;

   ii) that we will manufacture, sell and distribute the licensed products in an ethical and legal manner and in accordance with the terms and intent of this agreement;

   iii) we will cause to appear on or within each tape or film and all related sound or visual material, appropriate copyright trade mark or trade name notices;

9. You will undertake to make us "registered users" of the copyright and trade name referred to herein to give full effect to the present agreement. We recognize the great value of the publicity and goodwill associated with the licensed name and acknowledge that such goodwill belongs exclusively to you.

10. We shall keep accurate books of account and records covering all transactions relating to the license hereby granted and you, Herb Galewitz or any other representative of yours shall have the right at all reasonable hours of the day to examine such books of account and records had all other materials in our possession or under our control that relate to the subject matter in terms of this agreement, and each

of you shall have free and full access thereto in the city of New York and the right to make copies thereof or extracts therefrom, upon three days written notice to us of your intention to do so. All books of account and records shall be kept available for at least two years after the termination of this license. Acceptance of royalties shall not preclude you from questioning any statement rendered by us.

11. All notices hereunder shall be sent and payments hereunder shall be made to Herb Galewitz at the above address, with copies to you at 14 Hilliard Street, Cambridge, Massachusetts 02138. Except your fee of $150.00 per episode as copy editor which will be sent directly to you. All notices to us shall be mailed to our above-mentioned address, with copies sent to Egon Dumler, Esq., 575 Madison Avenue, New York, New York 10022. It is agreed that the present clause applies to notices, payments and requests for approval of art work.

12. You and we are not to be deemed joint venturers or partners. No waiver, modification or cancellation of any terms or conditions of this agreement shall be effective unless in writing signed by both you and us.

13. This agreement cancels any and all preceding agreements and undertakings between us and shall be construed in accordance with the laws of the State of New York. We each acknowledge that in addition to all other legal remedies, each of us, because of the unique quality of licensed name and property and the programs to be created with such name and property and the irreparable harm a breach by either of us if this agreement would cause, shall be entitled to injunction relief in the event of any breach by either of us against the other.

If the foregoing meets with your understanding of the agreements between us, our respective signatures at the place provided for hereunder will make this final and binding.

Yours very truly,

MILKTRAIN PRODUCTIONS INC.

Per:

/s/ Illegible
President

Agreed to and accepted this 25 day of January 1978.

/s/ Margret E. Rey
Margret E. Rey as M.R. TV.
Executrix o/w/o H.A. Rey)

SCHEDULE "A"
As referred to in Agreement of
November 5, 1979 between
Milktrain Productions Inc. and
Lafferty, Harwood & Partners Ltd.

LAFFERTY, HARWOOD &
PARTNERS LTD.
500 St-Jacques, Suite 600,
Montreal, Que. H2Y 3R3

MILKTRAIN PRODUCTIONS INC.
2080 Crescent Street
Montreal, Quebec

Mrs. Margret Rey,
c/o Mr. Herb Galowitz,
299 Madison Avenue,
New York, N.Y. 10017

Re: "Curious George"

Dear Mrs. Rey:

This letter is to confirm our agreements and arrangements for the exploitation by us of those rights hereby granted to us and Lafferty, Harwood & Partners Ltd. ("LH&P") jointly herein below with respect to "Curious George". References herein to us shall, with the exception of liabilities arising before the date hereof pursuant to the former agreement dated January 17, 1978, and signed by you on January 25, 1978, be deemed to include LH&P as well as ourselves, and shall enure to the benefit of LH&P. This letter and agreement will replace all previous agreements between us and will constitute the final contract.

1. You represent and warrant that individually and as Executrix o/w/o H.A. Rey, you are the sole owner of all rights in and title to the literary and design character "Curious George" created by the late H.A. Rey.

2. Under an earlier agreement dated January 17, 1978 we acquired, in consideration of certain cash payments, the worldwide rights to produce and distribute short television films using your literary and design character "Curious George".

3. The terms of this agreement are: –

   (a) That we shall have the right to produce 104 episodes of "Curious George" which will not be less than four minutes and will not be more than five and one half minutes for television viewing.

   (b) Prior to episodes being written, we will submit to you a list of topics for your approval or disapproval. If not disapproved by you within one week of receipt, the topic shall be deemed approved.

   (c) We shall pay to you the sum of Five Hundred Dollars ($500.00) for each of the first 104 episodes that we produce. Each payment shall be made to you after you have reviewed and provisionally approved the episode for which payment is due. In addition we agree that after the investors have recouped and certain soft dollar commitments of which you are aware have been paid, we shall pay you thereafter 10% of all revenues received after distribution and other third party marketing expenses have been paid.

   (d) You are to receive the sum of Five Hundred ($500.00) per episode for acting as a copy editor and shall receive credits as such, if you so

request. However, if circumstances prevent you from performing the function of copy editor within a reasonable time, we shall have the option to proceed without your services in this area. Payment of your fee for acting as a copy editor shall be $500 for each script from episode 80 to 104 inclusive and $150 cash for each episode from 1 to 79 inclusive with the remaining $350.00 for each of those episodes being paid to you from first revenues in proportionate payments as the investors recoup.

(e) If we produce at least one hundred episodes within a three year period, we shall, upon payment to you of Two Thousand Dollars ($2,000.00) at any time, and before the end of that three year period, have an option for one year to produce a television "special" or series based on the original seven "Curious George" books on terms and conditions (including compensation to you) that we shall both agree upon.

(f) We shall have the option to produce up to a further one hundred and four episodes in the two year period following the completion of the present 104 episodes with the further option that if we exercise this option it gives us the option within a two-year period of the completion of such episodes to exercise a further option to produce a third run of up to 104 episodes. The terms and conditions for those additional productions shall be the same as herein except that your royalty and editors's fee as originally provided for herein shall be consecutively increased by 10% in each of the two-year option periods.

(g) We shall have the right to combine episodes so that more than one episode can be shown consecutively at a given time.

(h) You shall have the right to approve or disapprove the original art work for the films but such approval shall not be withheld if the quality of art work is consistent with your memorandum dated June 25, 1979 attached as an Appendix to this letter. In the event that after you are presented with three convenient opportunities to review such episodes, you elect not to do so, then the art work of those episodes shall be deemed to have been approved.

(i) You shall have the right to require changes in any episode to meet the artistic quality stipulated in the memorandum referred to in Paragraph 3(h) up to an average of $900 per episode.

(j) Recognizing that the production and portfolio release of the full television series may well enhance the commercial exploitation of "Curious George" as a character, name and logo for ancillary products you are willing to enter into negotiations for an agreement with us to be drawn up at a later date which entitles us to some share of the net income from the exploitation of the ancillary products.

(k) All payments shall be made to you in U.S. Dollars with appropriate explanations of the sums paid.

(L) As a condition of having accepted payment from us you warrant and represent that there are presently no outstanding agreements, contracts or options entered into with or by you with any other person, corporation, organization or firm under which any rights to the use of "Curious George" for present or future television showing or the other rights contemplated in this agreement would conflict with those of the undersigned (except an existing film that was

produced a number of years ago, based on one of the original 7 "Curious George" books, which appears and might continue to appear from time to time as insert T.V. programming on such shows as Captain Kangaroo) or prevent or impede the production of the film episodes contemplated herein should we exercise our option, nor shall any such rights, options or undertakings be given by you in the future which would in any way conflict with the present undertaking and any extensions thereto should we exercise our subsequent options provided for elsewhere herein, and you undertake to abide by all the other terms and conditions of this agreement.

(m) We agree that we shall not attack your title in and to the licensed name "Curious George" or/and copyright or trade mark or trade name pertaining thereto, all of which you warrant to us that you are in possession of and own, nor will we attack the validity of the license which you grant to us to use the said name and/or copyright and/or trade mark.

(n) We furthermore undertake that we will not harm, misuse or bring into disrepute the licensed name.

(o) We undertake that we will manufacture, sell and distribute the licensed products in an ethical and legal manner and in accordance with the terms and intent of this agreement.

(p) We undertake that we will cause to appear on or within each tape or film and all related sound or visual material, appropriate copyright, trade mark or trade name notices.

(q) You will undertake to make us "registered users" of the copyright and trade name referred

to herein to give full effect to the present agreement. We recognize the great value of the publicity and goodwill associated with the licensed name and acknowledge that such goodwill belongs exclusively to you.

(r) We shall keep accurate books of account and records covering all transactions relating to the license hereby granted and you, or any authorized representative of yours, shall have the right at all reasonable hours of the day to examine such books of account and records and all other materials in our possession or under our control that relate to the subject matter in terms of this agreement. You and your authorized representative shall have free and full access thereto in the city of New York and the right to make copies thereof or extracts therefrom, upon three days written notice to us of your intention to do so. All books of account and records shall be kept available for at least two years after the termination of this agreement. Acceptance of royalties shall not preclude you from questioning any statement rendered by us.

(s) All notices hereunder shall be sent and payments hereunder shall be made to the above address, with copies to you at 14 Hilliard Street, Cambridge, Massachusetts 02138, except your fee of $500 per episode as copy editor, which will be sent directly to you. All notices to us shall be mailed to our abovementioned address, with copies sent to Egon Dumler, Esq., 575 Madison Avenue, New York, New York 10022. It is agreed that the present clause applies to notices, payments and requests for approval of art work.

(t) You and we are not to be deemed joint venturers or partners. No waiver, modification or cancellation of any terms or conditions of this agreement shall be effective unless in writing signed by both you and us.

(u) This agreement cancels any and all preceding agreements and undertakings between us and shall be construed in accordance with the laws of the State of New York. We each acknowledge, in addition to all other legal remedies, that because of the unique quality of licensed name and property and the programs to be created with such name and property and the irreparable harm a breach by either of us would cause, that each party shall be entitled to injunction relief in the event of any breach by either of us against the other.

If the foregoing meets with your understanding of the agreements between us, our respective signatures at the place provided for hereunder will make this final and binding.

Yours very truly,

MILKTRAIN PRODUCTIONS INC.	LAFFERTY, HARWOOD & PARTNERS LTD.
Per:	Per:
/s/ Illegible President	/s/ Illegible President

Agreed to and accepted this 5th day of November RGDL, 1979

/s/ Margret E. Rey
Margret E. Rey (personally
and as Executrix
o/w/o H.A. Rey)

Lafferty, Harwood & Partners Ltd.

Members
Calgary, Midwest
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January 3, 1983

500 ST. JACQUES ST. WEST
MONTREAL, CANADA
H2Y 3R3

Mrs. Margret Rey,
14 Hilliard Street,
Cambridge, Mass. 02138

RE: Ancillary Products Agreement

Dear Margret:

It is my understanding that we have now reached agreement on the following terms and I propose it to be effective from January 1st, 1983.

You will find with this letter our cheque for U.S. $67,500.10 which comprises payments for the following: –

1. Debt to you by Milktrain of $26,040.00 (interest was paid up to Sept. 1st, 1982).

2. An amount of $9,800 from us to which you believe your are entitled.

3. Legal fees payable of $3,860.10 and $2,800.00.

4. And the further $25,000.00 referred to on page 3 of this letter.

You grant to LH & P the exclusive right on a world-wide basis, excluding Japan, subject to any prior agreements lawfully entered into through the agency of Mr. Herb Galewitz, to manufacture, offer for sale and/or sell ancillary products on or in connection with which "Curious George" is used, and to sub-license others to exercise this right, subject to the terms hereof. Provided, however, that LH & P may directly or indirectly cause such products to be manufactured in Japan for sale elsewhere. Provided further, that LH & P shall have the right of first refusal with respect to any ancillary product rights excluded from this Agreement when the current agreements relative to such rights expire. Should this Agreement be in effect at such time as the territory of Japan becomes available, such territory shall automatically be incorporated into the grant of right contained herein, and all other terms and conditions of this Agreement shall apply to such territory. No contract rights or licenses granted by LH & P pursuant to this Agreement shall extend more than one year past the expiration of the then current term of this Agreement.

Ancillary products, for purposes of this Agreement, are all tangible goods and merchandise excluding books, films, tapes, records or video productions.

However, for stories already owned by LH & P and which have been produced as 104 episodes under the license granted in the January, 1978 agreement and the November 5, 1979 revision of that agreement, LH & P shall have the right to produce books, films, tapes,

records and video productions of these episodes under this Agreement, subject to your prior approval as set forth herein, which prior approval shall not be unreasonably withheld.

LH & P will waive any rights it may have under Paragraphs 3(e) and 3(f) of the November 5, 1979 agreement with Milktrain Productions, Inc. and Margaret Rey.

LH & P will not sell or distribute or authorize the sale or distribution of any product on or in connection with which "Curious George" is used without your prior approval.

LH & P will furnish to you copies of all contracts entered into pursuant to this Agreement for sale or distribution of any products.

LH & P undertakes to ensure that all persons authorized to manufacture products pursuant to this Agreement will secure product liability insurance, naming you as an insured party, in an amount sufficient to protect you from liability. LH & P will indemnify and you hold you harmless from and against all liabilities or expenses (including reasonable attorney's fees) arising out of claims asserted in connection with products licensed for manufacture or sale pursuant to this Agreement; provided, that you promptly notify LH & P of each such claim and provided, further, that the claim is defended by counsel selected by LH & P under the direction of LH & P. This indemnification does not extend to any claims which arise from any assertion that the use of "Curious George" in accordance with the terms of this Agreement infringes on any of the intellectual property rights of any other person.

LH & P will submit product or other information sufficient to describe the product to you for prior approval. When a product is submitted which is not an apparel product, we will wait two weeks before proceeding.

If we do not receive any disapproval of the product from you within two weeks we are entitled to presume that you approve of the product. If you do disapprove of any product, you will, if feasible, suggest such changes to LH & P as may render the product acceptable to you, or, if you cannot make such feasible suggestions, you may refuse to approve the product. Product approval will not be unreasonably withheld.

You will receive 33 1/3 percent of all royalty income earned pursuant to any license or sub-license for any product on or in connection with which "Curious George" is used under this Agreement.

Within 45 days after the close of each calendar quarter, we will deliver to you a statement of all reported sales for the quarter then ended and the royalty rates with respect to these sales and the products concerned; and at the same time shall pay to you the royalty due for such sales during this quarter. If the total royalty paid for the first four quarters of the term of this Agreement, (hereinafter the first "Year") or for any subsequent Year of the term shall not equal or exceed the Minimum Royalty Amount set forth herein, LH & P may, in order to keep this Agreement in effect, pay to you with the fourth quarter royalty payment an additional amount equal to the difference between the sum of the royalties paid with

respect to such Year plus any advance against royalties made and the Minimum Royalty Amount.

We will retain copies of the statements and of the documents supporting such statements for three years and these materials will be available for your inspection on reasonable notice.

LH & P will pay you $25,000.00 as a non-refundable advance against royalties. This money is enclosed with this letter Agreement. All reference to dollars in this Agreement shall mean U.S. dollars.

All royalty income earned from any ancillary product contract which you entered before this time will be treated as follows: royalty income which in any year during the term of our agreement equals or is less than the average amount of such income earned by you on an annual basis for the three years preceeding this time shall remain your sole and exclusive property. Any additional royalty income which exceeds the average amount shall be treated as royalty income earned pursuant to any license or sub-license entered into pursuant to our agreement.

We have an option agreement to acquire from Herb Galewitz the agency rights that he holds from you. We agree to exercise this option as soon as this agreement between you and ourselves is concluded, at which time the rights granted by you to Herb Galewitz shall terminate.

LH & P may from time to time seek to arrange promotional activities in connection with "Curious

George" products, including personal appearances and endorsements by you.

You agree to consider each proposal advanced by LH & P with respect to promotional activities, but reserve the right to refuse to participate in any promotional activities, and you reserve the right to refuse permission for use of your name in connection with any such promotional activities.

If you agree to participate in any promotional activities which LH & P proposes we will pay you your reasonable expenses incurred in connection with such promotional activities and a per diem fee of $500.00.

You agree that, from time to time, LH & P may seek trademark and/or copyright registrations directed to the products. LH & P will make application for each such trademark and/or copyright registration in your name, through trademark counsel, acceptable to you, retained by LH & P to act on your behalf. Approval by you of trademark counsel retained by LH & P shall not be unreasonably withheld.

You agree to execute upon request by LH & P all appropriate documents to secure each trademark and/or copyright registrations. The cost of filing, prosecution and maintenance of such trademark and/or copyright applications, including the cost of trademark counsel referred to above, and the cost of any registrations which issue will be a charge against the earned royalties, and will be paid from such earned royalties before they are divided and distributed. It is understood that LH & P shall have sole discretion to authorize the incurring of

fees for professional services and disbursements in connection with such trademarks, and applications and registrations therefor.

Each party will notify the other of any unauthorized use of "Curious George".

LH & P will in the first instance have the sole right in its discretion, upon 10 days notice to you, to institute and prosecute any action for infringement or unfair competition with respect to "Curious George". If LH & P decides not to institute any action however, you shall have the right to institute such action on 30 days notice to LH & P in writing of your intention to proceed. If LH & P, within 15 days of receipt of such notice informs you that it has refused to act on the grounds that it has received advice from the trademark counsel referred to above that such action seriously jeopardizes use of "Curious George" on the products, no action shall be instituted without the agreement of both parties acting in good faith after joint consultation with said trademark counsel.

You agree to cooperate with LH & P in connection with any action taken by LH & P to terminate the unauthorized use or infringement of "Curious George". However, you are not obligated to bear any expense in connection with such action.

If you institute or prosecute such action, LH & P will cooperate, but will not be obligated to bear any expense in connection with the action.

If either party recovers any monetary award as a result of any action for infringement or unfair competition, the recovery shall be distributed equally to the

parties after deduction of all costs, including attorneys fees.

This agreement shall extend for a term of five (5) years from the date of your execution of this letter agreement.

LH & P has an irrevocable option to extend this agreement for a further term of five (5) years. LH & P may exercise this option at any time between the commencement of the third and the termination of the ninth month of the fifth Year of the initial term of this agreement by giving you written notice of its intent to exercise the option.

When this agreement terminates, LH & P shall cease all use of "Curious George". However, termination of the agreement will not prevent LH & P or any licensee or sub-licensee from distributing products offered for sale by any customer or sold prior to termination, or affect the obligation to pay royalties to you with respect to such product.

You shall have the option to cancel this Agreement on sixty (60) days' written notice to LH & P in the event that LH & P is not able to establish one (1) year after the date of execution of this Agreement that at least 50 episodes have been sold to cablecasters and/or broadcasters who have placed the episodes in a position to be seen in a substantial part of the United States. A substantial part of the United States of America shall mean the episodes will be exposed to viewing by 20% of the households owning television sets in the country through either television broadcasting, television cable systems or satellite broadcasting. If LH & P submits to you documentation within

sixty (60) days of receipt of such notice establishing that the episodes have been sold and been shown on the air in a substantial part of the United States, then this Agreement shall not be terminated but shall continue in full force and effect in accordance with its terms.

You shall have the option to terminate this agreement by giving LH & P 30 days' written notice of termination at any time 45 days or more after the close of any complete Year if you have not received as payments under this agreement with respect to such Year a sum equal to or greater than the following Minimum Royalty Amounts: –

Year 1	$ 50,000.00
Years 2 – 5	$ 75,000.00 per year
Years 6 – 10	$125,000.00 per year

This Agreement will be binding on the parties, their assigns, and their successors in interest.

This Agreement constitutes the entire understanding between the parties with respect to ancillary products and may not be modified except in a writing executed by both parties.

Any dispute which arises between the parties which cannot be resolved after a good faith effort to resolve the dispute has been made may, at the option of either party, be submitted to arbitration in the City of Boston, Massachusetts in accordance with the rules of the American Arbitration Association, and both parties agree that the decision of the arbitrators shall be final and binding, and may be entered in a court of competent jurisdiction.

If you accept the Agreement as above-stated, please sign and date the copy of this letter which I enclose and return the same to me.

With kindest personal regards, I am

Yours sincerely,

/s/ R. G. D. Lafferty
R. G. D. Lafferty

RGDL/mg

c.c. Paul Talbot, Esq.
Joe Padulo, Esq.

I accept the terms above-stated:

/s/ Margret E. Rey
Margret E. Rey

Dec. 22, 1982
Dated

The undersigned hereby intervenes in the foregoing agreement to acknowledge and agree that although not a direct party to such agreement, they are nevertheless affected by the terms thereof and declare themselves satisfied with and bound by such terms as directly affect them.

/s/ Joe Padulo
MILKTRAIN PRODUCTIONS INC.

15 U.S.C. § 1121 (1992)

Jurisdiction of Federal courts; State and local requirements that registered trademarks be altered or displayed differently; prohibition

(a) The district and territorial courts of the United States shall have original jurisdiction, [and] the courts of appeal of the United States (other than the United States Court of Appeals for the Federal Circuit) [and the United States Court of Appeals for the District of Columbia] shall have appellate jurisdiction, of all actions arising under this Act, without regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties.

(b) No State or other jurisdiction of the United States or any political subdivision or any agency thereof may require alteration of a registered mark, or require that additional trademarks, service marks, trade names, or corporate names that may be associated with or incorporated into the registered mark be displayed in the mark in a manner differing from the display of such additional trademarks, service marks, trade names, or corporate names contemplated by the registered mark as exhibited in the certificate of registration issued by the United States Patent and Trademark Office.

28 U.S.C. § 1254 (1992)

Courts of Appeals; certiorari; certified questions

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

(2) By certification at any time by a court of appeals of any question of law in any civil or criminal case as to which instructions are desired, and upon such certification the Supreme Court may give binding instructions or require the entire record to be sent up for decision of the entire matter in controversy.

28 U.S.C. § 1331 (1992)

Federal Question

The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.

28 U.S.C. § 1332 (1992)

Diversity of citizenship; amount in controversy; costs

(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $50,000, exclusive of interest and costs, and is between –

(1) Citizens of different States;

(2) citizens of a State and citizens or subjects of a foreign state;

(3) citizens of different States and in which citizens or subjects of a foreign state are additional parties; and

(4) a foreign state, defined in section 1603(a) of this title [28 USCS § 1603(a)], as plaintiff and citizens of a State or of different States.

For the purposes of this section, section 1335, and section 1441, an alien admitted to the United States for permanent residence shall be deemed a citizen of the State in which such alien is domiciled.

(b) Except when express provision therefor is otherwise made in a statute of the United States, where the plaintiff who files the case originally in the Federal courts is finally adjudged to be entitled to recover less than the sum or value of $50,000, computed without regard to any setoff or counterclaim to which the defendant may be adjudged to be entitled, and exclusive of interest and costs, the district court may deny costs to the plaintiff and, in addition, may impose costs on the plaintiff.

(c) For the purposes of this section and section 1441 of this title –

> (1) a corporation shall be deemed to be a citizen of any State by which it has been incorporated and of the State where it has its principal place of business, except that in any direct action against the insurer of a policy or contract of liability insurance, whether incorporated or unincorporated, to which action the insured is not joined as a party-defendant, such insurer shall be deemed a citizen of the State of which the insured is a citizen, as well as of any State by which the insurer has been incorporated and of the State where it has its principal place of business; and (2) the legal representative of the estate of a decedent shall be deemed to be a citizen only of the same State as the decedent, and the legal representative of an infant or incompetent shall be deemed to be a citizen only of the same State as the infant or incompetent.

(d) The word "States", as used in this section, includes the Territories, the District of Columbia, and Commonwealth of Puerto Rico.

28 U.S.C. § 1338 (1992)

Patents, plant variety protection, copyrights, trademarks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trade-mark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17 [17 USCS §§ 901 *et seq.*] to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1367 (1992)

Supplemental Jurisdiction

(a) Except as provided in subsections (b) and (c) or as expressly provided otherwise by Federal statute, in any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that

they form part of the same case or controversy under Article III of the United States Constitution. Such supplemental jurisdiction shall include claims that involve the joinder or intervention of additional parties.

(b) In any civil action of which the district courts have original jurisdiction founded solely on section 1332 of this title, the district courts shall not have supplemental jurisdiction under subsection (a) over claims by plaintiffs against persons made parties under Rule 14, 19, 20, or 24 of the Federal Rules of Civil Procedure, or over claims by persons proposed to be joined as plaintiffs under Rule 19 of such rules, or seeking to intervene as plaintiffs under Rule 24 of such rules, when exercising supplemental jurisdiction over such claims would be inconsistent with the jurisdictional requirements of section 1332.

(c) The district courts may decline to exercise supplemental jurisdiction over a claim under subsection (a) if –

(1) the claim raises a novel or complex issue of State law,

(2) the claim substantially predominates over the claim or claims over which the district court has original jurisdiction,

(3) the district court has dismissed all claims over which it has original jurisdiction, or

(4) in exceptional circumstances, there are other compelling reasons for declining jurisdiction.

(d) The period of limitations for any claim asserted under subsection (a), and for any other claim in the same action that is voluntarily dismissed at the same time as or

after the dismissal of the claim under subsection (a), shall be tolled while the claim is pending and for a period of 30 days after it is dismissed unless State law provides for a longer tolling period.

(e) As used in this section, the term "State" includes the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.